2002

HSBC Bank Canada

Annual Report and Accounts

The world's local bank

HSBC

CORPORATE PROFILE

HSBC Bank Canada, a subsidiary of HSBC Holdings plc, has more than 160 offices. With over 8,000 offices in 80 countries and territories and assets of US$759 billion at 31 December 2002, the HSBC Group is one of the world's largest banking and financial services organizations.

Contents

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STOCK EXCHANGE LISTINGS

HSBC Bank Canada Class 1
Preferred Shares Series A
(HSB.PR.A-TSX)

HSBC Canada Asset Trust
Securities Series 2010 (HSBC HaTS™)
(HBH.M-TSX)

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Other shareholder inquiries may be directed to our Shareholder Relations Department by writing to:

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This document may contain forward-looking statements, including statements regarding the business and anticipated financial performance of HSBC Bank Canada ("HSBC"). These statements are subject to a number of risks and uncertainties that may cause actual results to differ materially from those contemplated by the forward-looking statements. Some of the factors that could cause such differences include legislative or regulatory developments, competition, technological change, global capital market activity, changes in government monetary and economic policies, changes in prevailing interest rates, inflation levels and general economic conditions in geographic areas where HSBC operates.

The information contained in management's discussion and analysis is derived from the audited consolidated financial statements of HSBC. Effective for 1998, HSBC changed its fiscal year-end from October 31 to December 31 to be consistent with that of HSBC Holdings plc. As well as being presented on an actual basis, the information for the fourteen months ended December 31, 1998 included in the five year summary has been annualized for comparative purposes. The annualized amounts are unaudited and were calculated by multiplying the audited results for the fourteen months ended December 31, 1998 by 12/14ths. The data under Risk-based Capital Ratios, Financial Ratios and Other Financial Data in various tables are derived from financial information used to prepare the audited consolidated financial statements of HSBC.

Unless otherwise stated, all references to $ means Canadian Dollars.

Five-Year Financial Summary

(in millions, except ratios)

	Year ended December 31, 2002	Year ended December 31, 2001	Year ended December 31, 2000	Year ended December 31, 1999	Fourteen months ended December 31, 1998 (annualized) *(Unaudited)*	Fourteen months ended December 31, 1998
Statements of income						
Net interest income	**$ 856**	$ 754	$ 666	$ 540	$ 519	$ 606
Provision for credit losses	**127**	92	39	43	77	90
Net interest income after provision for credit losses	**729**	662	627	497	442	516
Other income	**441**	419	462	384	285	332
Net interest and other income	**1,170**	1,081	1,089	881	727	848
Non-interest expenses:						
Salaries and employee benefits	**339**	359	385	339	266	310
Premises and equipment(1)	**107**	115	108	101	86	100
Other	**254**	230	249	197	183	214
Restructuring	**30**	–	–	–	–	–
Total non-interest expenses	**730**	704	742	637	535	624
Income before taxes	**440**	377	347	244	192	224
Provision for income taxes	**164**	147	155	79	36	42
Non-controlling interest in income of trust	**16**	16	8	–	–	–
Net income	**260**	214	184	165	156	182
Preferred share dividends	**8**	8	15	–	–	–
Net income attributable to common shares	**$ 252**	$ 206	$ 169	$ 165	$ 156	$ 182
Balance sheet highlights						
Total assets	**$ 35,189**	$ 33,260	$ 29,438	$ 25,051	$ 24,836	$ 24,836
Total loans	**23,869**	21,870	19,753	17,130	17,459	17,459
Commercial loans	**11,949**	11,575	11,330	9,634	9,934	9,934
Residential mortgage loans	**9,809**	8,377	6,809	5,769	6,057	6,057
Total deposits	**28,372**	26,707	23,511	20,170	20,550	20,550
Personal deposits	**14,432**	13,390	12,116	10,858	10,213	10,213
Subordinated debentures	**528**	447	422	392	620	620
Shareholders' equity	**1,673**	1,612	1,406	1,252	817	817
Risk-based capital ratios (%)						
Tier 1 Capital	**8.4**	8.6	8.6	7.9	5.4	5.4
Total Capital	**11.4**	11.3	11.5	10.9	10.0	10.0
Financial ratios (%)						
Return on average common equity	**16.4**	14.9	15.3	18.4	21.0	21.0
Return on average total assets	**0.72**	0.65	0.60	0.63	0.63	0.63
Other income percentage(2)	**34.0**	35.7	41.0	41.6	35.4	35.4
Cost:income ratio(3)	**56.4**	60.0	65.8	68.8	66.5	66.5
Net non-performing loans as a percentage of loans and acceptances(4)	**(0.33)**	(0.14)	(0.51)	(0.55)	(0.67)	(0.67)
Liquidity ratio(5)	**25.8**	27.4	25.5	22.6	24.3	24.3
Assets under administration						
Funds under management	**$ 11,888**	$ 9,559	$ 9,209	$ 9,633	$ 6,838	$ 6,838
Custodial accounts	**$ 3,208**	$ 2,686	$ 2,854	$ 3,060	$ 2,881	$ 2,881
Total assets under administration(6)	**$ 15,096**	$ 12,245	$ 12,063	$ 12,693	$ 9,719	$ 9,719

(1) *Premises and equipment expenses, including amortization.*
(2) *Other income percentage is other income as a percentage of the total of net interest income and other income.*
(3) *Cost:income ratio is total non-interest expenses as a percentage of the total of net interest income and other income ("cost:income ratio").*
(4) *Net of specific and general allowances for credit losses.*
(5) *Liquidity ratio is liquid assets as a percentage of total deposits ("liquidity ratio").*
(6) *Amounts prior to December 31, 2002 have been restated to adjust for inter-company holdings of assets.*

Message from the President and CEO

HSBC Bank Canada was able to overcome an uncertain economic environment to achieve positive results in 2002. A large part of our success was due to our strong team of employees who are dedicated to providing superior service to our customers. Customer satisfaction is a top priority at HSBC so we were proud that the Market Facts of Canada (now known as Synovate) 2002 Customer Service Index found that HSBC Bank Canada had the highest percentage of customers rating its service as excellent among all banks surveyed.*

Together with other members of the HSBC Group around the world, we launched a worldwide brand campaign in April 2002 using the tagline "The world's local bank." This campaign highlighted our unique ability to serve local needs by taking advantage of our international perspective. We plan to continue to make use of the international strength of HSBC to serve our customer base and expand our presence in Canada.

In 2002, we also laid the groundwork to become North America's premier cross-border bank through a strategy of North American alignment. Our goal is to provide seamless cross-border service for customers in Canada and the United States through a closer working relationship between HSBC Bank Canada and HSBC Bank USA. We have appointed senior executives with North American responsibilities and we are working on improving our products, processes and systems on a cross-border basis.

The HSBC Group has over 1,000 offices in the United States and Canada and approximately 1,400 in Mexico. In November 2002, the HSBC Group announced an agreement to acquire Household International. With the completion of that acquisition (expected in the first quarter of 2003), HSBC will increase its presence in the NAFTA (North America Free Trade Agreement) region to more than 3,800 locations. Our ability to deliver financial services across North America should be a significant competitive advantage.

In 2003, we expect to grow revenues by focusing on excellent service and a strong value proposition and by attracting new customers and deepening relationships with existing customers. We intend to take advantage of our strengths: cross-border capabilities, high service culture and strong corporate character in line with the HSBC brand proposition. It's back to basics in all our business lines whether in the personal, small and medium sized commercial, or corporate areas. We will also try to use any opportunities to grow our business that result from the consolidation of our competitors in Canada.

While economic prospects remain mixed as we start 2003, with the support of the marketplace, we are confident that we can continue to grow HSBC's business in Canada and be an effective competitive force in 2003.

Martin J. G. Glynn
President and Chief Executive Officer

For details, refer to page 7.

Management's Discussion and Analysis

For the year ended December 31, 2002

Overview

HSBC Bank Canada ("HSBC") is the largest full-service, internationally owned and seventh largest bank overall in Canada; operating in every region, with total assets of $35 billion as at December 31, 2002. As a subsidiary of HSBC Holdings plc ("HSBC Holdings"), clients are provided with access to one of the largest banking and financial services organizations in the world.

Originally established in 1981 with our head office located in Vancouver, British Columbia, we have grown, mainly by acquiring new customers in the marketplace, and through strategic acquisitions, to become a fully integrated financial services organization. With more than 160 offices across Canada, we provide personal, commercial and corporate financial services, together with having subsidiaries that offer online and full service brokerage, mutual funds, fund management, personal trust services, investment banking and direct sale of home and auto insurance.

The HSBC Group

Established in 1865, the HSBC Group, "The world's local bank", is one of the largest banking and financial services organizations in the world, with a market capitalization of US$105 billion at December 31, 2002. At the end of 2002, the HSBC Group had total assets of US$759 billion, shareholders' equity of US$52 billion and total funds under management of US$306 billion. For the year ended December 31, 2002, the HSBC Group's consolidated operating profit was US$9.0 billion on revenues of US$26.6 billion. HSBC Holdings is well capitalized under UK standards (which are comparable to those in Canada) with a Tier 1 capital ratio of 9.0% and a total capital ratio of 13.3% at December 31, 2002. The ordinary shares of HSBC Holdings are listed on the London, Hong Kong and Paris stock exchanges. Its American Depositary Receipts are listed on the New York Stock Exchange.

Through its international network of over 8,000 offices in 80 countries and territories, the HSBC Group provides a comprehensive range of financial services to clients and enjoys a leading market position in trade services and other products in many markets around the world.

In November 2002, HSBC Holdings and Household International, Inc. ("Household") reached agreement for HSBC Holdings to acquire Household. The agreement is subject to a number of conditions including the approval of the shareholders of HSBC Holdings and Household, and regulatory and other consents and approvals in a number of jurisdictions. The acquisition is expected to be completed at the end of the first quarter of 2003, and Household will become a wholly-owned subsidiary of the HSBC Group. This acquisition is expected to result in a number of operating synergies and will provide an opportunity for HSBC to further expand its business operations in North America as well as achieving further international diversification.

The Business of HSBC Bank Canada

Strategy

Our objective is to be the leading international provider of financial services in Canada with a significant presence in identified key markets.

In 2000, we introduced a five-year strategic plan entitled "Managing for Value" designed to support the HSBC Group's key strategic initiatives. Our strategy is to continue to expand and build on our strengths as a provider of financial services to small and midsize companies as well as personal financial services to individuals. The provision of corporate commercial financial services, including trade finance, treasury, and merger and acquisition ("M&A") advisory services to large HSBC Group customers continues to be a focus. To achieve these objectives, we utilize the worldwide capabilities of the HSBC Group to provide our customers with excellent service in Canada. Our strategy has the following key operating components:

– **Make use of the worldwide strength and reach of the "HSBC" brand to expand customer base and geographic presence** – We believe the worldwide strength and reach of the "HSBC" brand is our most significant competitive advantage. We intend to increase Canadian awareness of the HSBC Group's North American Free Trade Agreement ("NAFTA") and international capabilities to enhance our market share and realize economies of scale in Canada. While our strategy is focused principally on organic growth, it also allows for opportunistic acquisitions.

- **Deepen existing client relationships** – We are focused on increasing penetration of our customer base by better understanding and meeting clients' needs and ensuring they have ready access to the full range of our products and services and the NAFTA and international capabilities of the HSBC Group.
- **Re-engineering organizational processes and structures to optimize efficiency, while enhancing sales and advisory activities** – We will implement a variety of strategies, which will promote operating efficiency by supporting an increased focus by our branch staff on sales and relationship management. This will mean reallocating resources to ensure they are deployed so as to maximize our sales potential.
- **Ensuring systems development, capacity and performance continue to address the changing and growing needs of HSBC and its clients** – We will take full advantage of our HSBC Group connections by leveraging the HSBC Group's technology investments as we build and enhance our systems.
- **Enhance multi-channel delivery systems** – We are focused on improving customer service by providing increased choice for delivering services through a variety of channels. While our branch network will remain a critical delivery channel, we plan to expand the market for Telephone and Internet Banking. We are also implementing a focused e-business strategy to enhance electronic delivery capabilities.
- **Attract, retain and motivate a high performance team of employees** – This policy has been critical to our success and the development of a strong sales and service culture throughout the organization.

Business Lines

We offer a wide range of products and services to targeted segments of the financial services market, through four major business segments, Personal Financial Services, Commercial Financial Services, Wholesale Banking and Treasury and Markets. The organization and structure of our operations focus on customer needs, and are uniquely integrated across service and product lines, subsidiaries, and strategic alliances and internationally through the HSBC Group's worldwide network.

- **Personal Financial Services ("PFS")** provides our personal customers in Canada, and where appropriate worldwide, with excellent customer service and offers access to a comprehensive range of financial products and services through a variety of delivery channels.
- **Commercial Financial Services ("CFS")** provides a complete range of financial products and services to Canadian commercial clients through our branch network and subsidiary offices in Canada as well as through other HSBC Group offices around the world.
- **Wholesale Banking** provides a comprehensive range of financial services to an international group of HSBC's large multinational clients. HSBC's focus is on entities that have a need for global value added products through investment banking, structured lending and trade services by offering the following: corporate banking; asset management; investment banking; treasury; and trade finance.
- **Treasury and Markets** consists of three principal activities – client sales, service and distribution, balance sheet management and proprietary trading. The HSBC Group's worldwide treasury and capital markets capabilities are used to enhance the opportunities to serve our customers.

During 2002 we conducted a review of HSBC Securities (Canada) Inc.'s ("HCSC") business model to ensure we continue to operate in businesses that are profitable and strategically relevant to our North American and international operations. As a result, in April 2002, HCSC withdrew from institutional equity sales, trading and research in Canada and realigned its corporate finance services to focus on M&A advisory services and origination of new issues for distribution to our private client network. The expansion of our wealth management business is a core component of HSBC's overall growth strategy for Canada and building HCSC's Private Client Services (our full service retail brokerage services) is important to our strategy. HCSC remains an active participant in both the institutional and retail fixed income markets.

In May 2002, the HSBC Group and Merrill Lynch agreed in principle that their joint venture company, Merrill Lynch HSBC ("MLHSBC") would be integrated into the HSBC Group. HSBC acquired Merrill Lynch HSBC Canada Inc. at the end of October 2002 and is aligning its operations with those of HCSC to provide our clients with the best investment options and client service.

Management's Discussion and Analysis (continued)

Review of Operations – 2002

2002 Highlights

- We were rated highest for overall quality of customer service, among all the banks included in the 2002 Customer Service Index, an independent study conducted annually by Market Facts of Canada.
- We started to lay the groundwork of our North American Alignment in order to achieve one of our key goals to become North America's leading NAFTA bank.
- We launched, along with other members of the HSBC Group, a worldwide brand campaign with the tag line "The world's local bank", with advertisements on television, radio and in print. We also expanded our sponsorships.
- We introduced "*client*Connect", our sales and service initiative designed to improve client relationships. We also completed the roll out of our Call Management strategy, designed to remove routine tasks from branches, enabling staff to concentrate on deepening relationships with our customers.
- We launched a number of innovative products, such as our prime minus, variable rate mortgage and a series of stock index linked GICs that have been well received by new and existing customers. We also expanded the reach of HSBC *Premier* and Global Private Client Services.
- We continued to exploit the competitive advantage of being a member of the HSBC Group in our Trade Services business. We now have the largest market share in Canada for Import Documentary Credits ("DCs") and we rank second in Canada in terms of combined Import/Export DCs.
- We launched Electronic Documentary Credit Advising ("EDCA"), our internet based trade services product and implemented major changes to our other internet based products. These included a major overhaul of our website, the launch of Business Internet Banking and a considerable improvement to our existing Personal Internet Banking service.

Financial Results – Highlights

- Net income was $260 million for the year ended December 31, 2002, an increase of 21.5% compared to $214 million in 2001.
- Return on average common equity was 16.4% for the year ended December 31, 2002 compared to 14.9% for 2001.
- The cost:income ratio improved to 56.4% in 2002 from 60.0% in 2001.
- Total assets were $35.2 billion at December 31, 2002 compared to $33.3 billion at December 31, 2001.
- Total assets under administration were $15.1 billion at December 31, 2002, of which $11.9 billion were funds under management and $3.2 billion were custody and administration accounts.

Achievements for 2002

In 2002 we announced the alignment of our North American operations with a much closer working relationship between HSBC Bank USA ("HBUS") and HSBC Bank Canada. This initiative has been developed, in part, to provide seamless North American service propositions to our customers. Our goal is to be known as North America's premier cross-border bank, which ties in with the HSBC Group's new brand positioning as "The world's local bank." Aligning our American and Canadian operations will allow management to better leverage the strengths and best practices of each bank. It will also enable us to increase economic profit in North America by improving HSBC's position in terms of brand awareness, cost efficiencies, revenue generation, distribution and risk management.

At the same time we will be able to provide greater career satisfaction and development for more of our employees with opportunities extending beyond domestic borders. In support of our goal to become North America's leading NAFTA bank we have appointed a number of senior executives with North American responsibilities, streamlined our credit processes, reviewed and identified product and system changes all with the goal of providing seamless customer service between the USA and Canada.

In addition, in 2002, the HSBC Group acquired Grupo Financiero Bital S.A. C.V., one of Mexico's largest financial service groups. This will allow us, in conjunction with our colleagues in the USA and Mexico, to work towards becoming North America's leading NAFTA bank providing customers with a seamless service throughout the three NAFTA countries. The expected acquisition of Household will further add to the HSBC Group's strength in NAFTA.

Some of our other achievements in pursuing our strategy for 2002 included the following:

Make use of the worldwide strength and reach of the "HSBC" Brand to expand customer base and geographic presence. The HSBC Group's worldwide brand campaign "The world's local bank" was launched on British Columbia television and in print in April. Nationally we launched "Your Financial Planet" in the fall, focusing on reinforcing the brand message through several media vehicles. This national campaign included extensive brand in action, product-focused advertising leveraging the brand, while delivering a highly visible product message. Consumer research produced strong results with unaided awareness of HSBC increasing considerably.

HSBC continues to refine its sponsorship portfolio to include larger events with higher profiles. Nationally, we are proud to be the title sponsor of the "HSBC Stars On Ice" Canadian tour to be held during April and May 2003. Regionally we have sponsored a number of high profile events as well as being involved in the community. In British Columbia, we became a presenting sponsor of the Vancouver Sun Run and continued our association with the HSBC Powersmart Celebration of Light international fireworks festival. In Alberta, we sponsored the annual Wayne Gretzky and Friends Invitational golf tournament. In Ontario, we sponsored the HSBC Blue Mountain Kids Ski Free promotion and the 2002/2003 concert season at Roy Thomson and Massey Halls in Toronto. In Quebec, we continued the HSBC Group's Formula One Jaguar racing sponsorship at the Canadian Grand Prix held in Montreal.

Other focused sponsorship initiatives supported local advertising and involvement in a number of product related trade shows.

Deepen existing client relationships. A key focus for 2002 was to maintain our excellent customer service. For the third year in succession, we achieved excellent customer service ratings in the "Customer Service Index," an independent survey conducted annually by Market Facts of Canada (now known as Synovate).* Among all banks included in the 2002 survey, we were rated highest on all four overall quality measures: "overall quality of customer service", "value for money of products and services", "would recommend institution to friends/family" and "degree to which my institution values my business." This distinction could only have been achieved through the hard work and efforts of all our staff.

We are implementing a number of improvements to customer focused systems. In 2002 we introduced "*client*CONNECT" our internal name for initiatives that improve our customers' experiences. *client*CONNECT is about people – our customers and our salespeople – together with process – the customer experience – with an information technology tool that brings it all together. The preliminary component of *client*CONNECT includes a customer relationship management system, a new Windows-based loan administration system and updated operating systems and technology in our branches. These new sales tools will support our continued efforts to deepen our client relationships, better understand their needs and enhance our cross-sell ratios.

We continued to expand the delivery of HSBC *Premier* in Canada, which is a global product, offering an exclusive suite of banking, credit and investment services and special privileges. To support our customers who need to access HSBC's services worldwide, we launched HSBC *Premier* International Services to facilitate their business outside of Canada. In Canada, we continue to have success in marketing the HSBC *Premier* product to key customers. Our *Premier* customer base grew by 78% in 2002. We now have a number of centres across the country available for our clients.

We opened our first Global Private Client Services centre in Toronto and now have centres in Toronto, Montreal and Vancouver. We continue to develop our services offering high net worth individuals a complete range of banking, investment, trust and estate planning services.

Re-engineering organizational processes and structures to optimize efficiency, while enhancing sales and advisory activities. Our branches have increasingly expressed the opinion that time spent answering routine telephone enquiries and completing the related administrative tasks takes away from their focus on selling and developing customer relationships. In 2002, we concluded implementation of a call management strategy designed to eliminate this barrier, through upgrading all branches to a common telephone platform with direct lines for sales and senior customer service staff, and transferring the primary responsibility for answering routine telephone inquiries to our telephone banking service. It is designed to improve customer service by freeing up branch staff to spend time with customers in person, while routine telephone enquiries are handled quickly and efficiently, through the use of modern technology and systems. It enables our customers to speak to one of our staff, even if they call outside regular branch opening hours. Recognizing the international nature of many of our clients, we have expanded access to our telephone banking service, which can now be contacted toll free from the USA and five other overseas locations in Europe and the Far East.

**For 2002, the survey was conducted between August and September 2002, including an additional sample of customers provided by HSBC Bank Canada, which were surveyed between October and November 2002.*

Management's Discussion and Analysis (continued)

During 2002 a branch of HBUS was opened in Toronto and provided an opportunity for the HSBC Group to further its relationship with some of Canada's largest companies. In December, we transferred the ownership of our two branches located in northwestern United States to HBUS. It is expected that customers of these branches will be able to access a much broader range of services including retail deposits, not permissible while the branches were owned by HSBC Bank Canada. However, the branches will retain close ties with us, as there are numerous cross-border relationships owing to their geographic location and proximity to Vancouver.

The introduction of a global purchasing solution in North America and Canada has enabled us to take advantage of volume savings not previously experienced, particularly for stationery and equipment. Purchasing staff have been working closely together to identify opportunities to realize savings by combining contracts and vendor relationships. Considerable savings have already been realized and further savings are anticipated. In addition to pricing, other factors are also relevant, including dealing with suppliers who reflect HSBC's own culture.

Ensuring systems development capacity and performance continue to address the changing and growing needs of HSBC and its clients. We are implementing a number of changes in respect of our commercial and personal credit infrastructure and systems to improve risk assessment and to enhance efficiency, productivity and customer service. We expanded the use of our Credit Approval & Relationship Management system ("CARM") in our branch network during 2002 with plans for further enhancements during 2003. CARM is an HSBC Group system used by relationship managers to process recommendation and approval of credit applications for commercial and corporate customers. This common platform allows for the efficient processing of credit applications locally and expedites concurrence in approval of larger credits though electronic linkages to the HSBC Group's head office in London, England and helps us to manage relationships with our customers more effectively. CARM links efficiently with Moody's Risk Advisor, a risk assessment tool that is currently under pilot and will be rolled out to our branch network during 2003. We are also in the process of implementing a number of other HSBC Group software solutions for automated personal credit scoring and relationship management tools, which are expected to further accelerate credit decisions for customers, while enhancing risk management. This infrastructure is being developed along with the HSBC Group in preparation for the introduction of the new "Basel 2" capital adequacy framework expected to be in place at the end of 2006.

During 2002 we improved the quality of our business continuity processing capacity. North American Alignment has provided a number of opportunities in this area and we have been testing communications with HSBC Group's state of the art, secure Data Center located in New York State, USA. This is expected to considerably enhance our future operational capabilities and our existing disaster recovery capability.

We are continuing to take advantage of the HSBC Group's investments in people and technology through the migration of some back office processes offshore to the Group Service Centre in Guangzhou, China. We have implemented certain workflow and image systems, to improve the efficiency and reliability of these processes, benefiting from the economies of scale this service centre can provide.

Export letters of credit issued in favour of our customers along with export advices are currently sent by fax, mail and courier or are picked-up at our Trade Centres. This process is slow, inconvenient for our customers and labour intensive. During 2002 we launched "EDCA", the first phase of an HSBC Group internet Trade Service initiative to provide internet capability to our Trade Services customers. The service is simple, easy to use and brings added convenience and flexibility to our customers. Key benefits to customers include receipt of export DCs within a few hours rather than 1-2 days, so work on filling the export order can start sooner. There is no need to visit an HSBC trade centre to pick up original DCs, which particularly benefits exporters not located physically close to an HSBC branch or trade centre.

In September 2002, we implemented "Continuous Linked Settlement" ("CLS"), an industry wide undertaking to remove settlement risk from foreign exchange ("FX") transactions. Financial institutions participating in CLS submit deals of the "send and receive" legs of their CLS eligible FX transactions for simultaneous settlement, eliminating the risk associated with having to initiate the pay side of a foreign exchange transaction before ensuring the receive side is complete. The HSBC Group was a key member of the group of global institutions supporting this initiative and HSBC participates as the Group's settlement agent for Canadian dollar transactions, paying or receiving the total Canadian dollar values for HSBC Group offices and their customers. There are currently agreements in place with approximately 55 counterparties, which are expected to grow quickly as CLS gains momentum throughout the industry.

Enhance multi-channel delivery systems. HSBC continues to enhance its electronic banking channels to complement its branch network. Active Personal Internet Banking clients have increased significantly, as has average utilization by customers. During the year functionality was improved, increasing the range of services available, including on line mutual fund balance enquiry for clients of HSBC Investment Funds (Canada) Inc., as well as improving ease of use. The first internet banking platform designed for professional clients, sole proprietors and small commercial enterprises has been available throughout 2002, with some service enhancements introduced during the year. A comprehensive Business Internet Banking system offering payment and cash management services, international trade, enhanced access control and digital authentication was piloted successfully in 2002 with a full launch planned early in the second quarter of 2003.

In December 2002, we launched a major redesign to our website (www.hsbc.ca). The objectives of the re-design were to create a website reflective of the high level of service in our branch network and call centres underlining HSBC's international financial capabilities. It sets out to provide more relevant, easily accessible information for all of our existing and potential customers and provide a better customer experience for both our relationship and our sales and service managed customers. The HSBC website is a "virtual branch" that receives millions of visits per year. Improving how this virtual branch is laid out and how it sells products and services will ultimately result in improved cross-sell of internet users, retention and deepening of existing high-value client relationships as well as cost savings and operating efficiencies.

Attracting, retaining and motivating a high performance team of employees. In keeping with our strategy in attracting, retaining and motivating a high performance team, key initiatives in 2002 were based on the results of our 2001 Employee Opinion Survey. We introduced a number of changes in areas of operating efficiency, performance management, compensation and benefits, work-life balance and training. For many years we have recognized the value of a diverse work force with our valuing diversity objective, designed to optimize our workforce and reflect the needs of the global marketplace. In 2002, we increased our focus by encouraging employee reviews to include an objective, which would promote the practical application of valuing diversity. The President's Awards program, which recognizes top performers from across HSBC, is based on sales performance, revenue enhancement and improved customer service. The 2002 winners enjoyed an Alaskan cruise with a number of colleagues from HBUS. The 2003 award winners were announced in February 2003 and will be enjoying a cruise on the eastern seaboard of Canada and the United States.

During 2002, we sent 15 employees overseas to take part in the HSBC Group's Employee Environmental Fellowship program. After returning home, our employees received grants to establish conservation projects in their communities and participants will volunteer to speak at local schools about their experiences. This program reflects both our international reach and our commitment to the communities where we live and work, as well as part of our commitment to attract and retain and motivate one of our key resources – our people. This presents an exciting opportunity for them to learn about environmental issues around the world and to share this knowledge with others. We are very proud of all our employees who have been chosen to take part in these challenging and worthwhile ecological projects, which will be repeated in 2003.

Outlook – 2003

In 2003 we will continue to focus on growing our core businesses. We expect the acquisition of MLHSBC will be an advantage to our wealth management business as clients will have more access to HSBC and will benefit from HSBC's development of products and services.

Although the low interest environment and high consumer demand in 2002 provided excellent growth opportunities particularly for consumer loans and residential mortgages, a background of corporate scandals in industry and weaker-than-expected economic growth resulted in continued deterioration of financial markets, which stalled corporate growth. The continuing risks and uncertainties could provide testing economic circumstances throughout 2003. This requires us to enter the year with a continued emphasis on controlling costs while retaining the flexibility to take advantage of opportunities to grow as they arise. A summary of our goals for 2003 is:

- **Realize benefits of North American Alignment** – sharing a common business focus, particularly maximizing relationships with existing customers and leveraging HSBC Group capabilities, should enable us to add shareholder value. Our strong credit and service culture, the high quality and loyalty of our staff and our providing seamless cross border customer service should be key differentiators from our competition and enable us to meet customer expectations.

Management's Discussion and Analysis (continued)

- **Maintain and grow revenues in difficult market conditions** – We aim to do this by focusing on value not volume, by attracting new high value customers and deepening relationships with existing customers. We will exploit our strengths such as cross border capabilities, high service culture and trade services and focus on key segments such as *Premier* and mid-market commercial, where there is less volatility.
- **Keep expense growth under tight control** – We will aggressively reallocate resources to areas of higher economic value and long term growth, implementing initiatives that lead to further synergies wherever possible with HBUS, such as aligning customer segments and support functions. We aim to maximize financial benefits of the Global Service Centres, North American Alignment and strategic investments such as call centres, e-Commerce, customer service and data centres. We also expect to streamline processes wherever possible (such as combining back offices of MLHSBC and HCSC) and continue to use Group IT solutions.
- **Continue to reinforce the "HSBC" Brand in Canada** – We expect to continue to benefit from HSBC Worldwide Brand advertising and North American Alignment will go a long way towards making us "The world's local bank".

Analysis of financial results for the year ended December 31, 2002

HSBC recorded net income of $260 million for the year ended December 31, 2002, an increase of $46 million, or 21.5 %, from $214 million for the year ended December 31, 2001. The increase was primarily attributed to higher net interest income, other income and lower salaries and benefits. These were partially offset by larger credit losses and a number of one-time charges and other non-interest expenses. Return on equity was 16.4 %, an increase of 1.5 percentage points compared to 14.9 % for 2001.

HSBC Bank Canada acquired MLHSBC on October 31, 2002. For financial reporting purposes, the income and expenses of MLHSBC have been included in the consolidated results of HSBC effective July 1, 2002, the date the HSBC Group acquired full ownership of MLHSBC. The impact of consolidating the results of MLHSBC from July 1, 2002 to October 31, 2002 was to reduce HSBC's net income by $2 million, which has been included in the results for the fourth quarter of 2002.

Net interest income continued to be strong and benefited from continued growth in our residential mortgage portfolio and higher net interest margins. We are encouraged that revenue from our non-market sensitive lines of business has continued to grow and our retail and commercial banking business continued to perform well. However, weakness in the equity markets has continued to dampen our capital market revenues relative to the prior year.

Net interest income: Net interest income for 2002 was $856 million, an increase of $102 million, or 13.5%, from $754 million in 2001. The increase was aided by the low interest rate environment, buoyant economy and consequent active housing market in Canada during 2002, resulting in an increase in residential mortgages of $1.4 billion or 17.1% during 2002.

The net interest margin, as a percentage of average interest earning assets, increased to 2.79% for the year ended December 31, 2002 from 2.70% for 2001. Margins benefited from the effect of lower interest rates, particularly on funding costs, as maturing higher rate borrowings were replaced with lower cost funds.

Other income: Other income increased 5.3% to $441 million for 2002 compared to $419 million for 2001. Capitalizing on our traditional strengths and our international HSBC Group connections, we achieved an increase in trade finance revenues of 12.5%. Although net interest income from our commercial loan book was relatively flat compared to 2001, income from bankers' acceptances, included in credit fees, grew by 14.4%, reflecting the lower cost funding opportunities for our clients. Foreign exchange revenues increased by 8.2%. The increase in securitization income of 26.7% reflects an increase in activity and a change in accounting rules. In 2002, we securitized $468 million in personal loans and residential mortgages compared to $100 million of residential mortgages in the previous year. We also recognized the full year impact of new accounting standards, which require gains on transactions subsequent to July 1, 2001 to be recognized in other income immediately; previously gains were deferred and amortized in other income over the life of the assets securitized. Other income also included a one-time gain of $17 million realized on the sale of shares arising from our holdings of seats on the Toronto Stock Exchange, which went public during 2002. Total capital market fees were lower in 2002 than in 2001 as a result of the restructuring of our institutional equity business earlier in the year and the continuing weakness in equity markets. However, we achieved some considerable successes in our merchant banking business and total merger and acquisition advisory fees exceeded those in 2001.

Non-interest expenses: Non-interest expenses were $730 million, or 3.7% higher, for 2002 compared to $704 million for 2001. Following the decision to withdraw from institutional equity sales, trading and research activities, a special one time restructuring charge of $30 million was recorded. Continued cost containment measures have resulted in a significant decrease in the cost:income ratio which was 56.4% (54.0% excluding restructuring costs) compared to 60.0% for 2001.

Salaries and benefits were lower compared to 2001 due to lower base salaries following the restructuring of the institutional equity business and the impact of a full year's benefit of headcount reductions made in the latter part of 2001. This, together with lower performance based compensation resulting from lower capital market revenues, contributed to a reduction of salary expense, our most significant cost, of $27 million or 8.4%. However, this was partially offset by an increase in benefits expense of $7 million or 17.9% related to an increased pension expense. The reduction in stock market values impacted pension plan assets resulting in an increased charge. This was exacerbated by a reduction in the long term discount rate used to estimate the long-term cost of our pension plans.

Premises and equipment expenses were lower by 7.0%. This arose from reductions in rental expenses resulting from previous consolidations of office premises, together with the impact of lower capital expenditures resulting in reduced equipment depreciation.

Other non-interest expenses increased due to a one-time charge for rationalization of leased office space in Toronto, increased marketing costs due to our brand awareness campaigns and increased operating losses. However, these were offset by savings realized as a result of global purchasing initiatives and lower volume-driven transaction expenses resulting from the reduction in capital market transactions.

Provision for income taxes: The provision for income taxes was $164 million for 2002 compared to $147 million for 2001. The effective tax rate decreased to 38.7% compared to 40.7% in 2001 due to the lower tax rates arising from income tax reductions announced in previous years.

Credit quality and provision for credit losses: The provision for credit losses was $127 million for 2002 compared to $92 million for 2001.

During 2002 overall credit quality remained sound, despite some weakness in the telecommunications portfolio, that was restricted to a small number of commercial facilities. Economic conditions continued to prove challenging in North America during 2002 and consumer confidence showed evidence of weakening due to concerns over employment security and the poor performance of the equity markets. Against this background, our conservative approach to credit granting and proactive loan management helped mitigate these external factors. Total impaired loans decreased $57 million, or 20.2%, to $225 million at December 31, 2002 compared to $282 million at December 31, 2001. The allowance for credit losses was in excess of impaired loans by $86 million compared to $33 million last year. This was primarily due to the higher level of specific allowances raised against impaired loans at December 31, 2002 compared to December 31, 2001 while the level of general allowances was relatively unchanged year over year. As a result, the allowance for credit losses as a percentage of impaired loans improved to 138% at December 31, 2002 from 112% a year earlier. Overall, the allowance for credit losses as a percentage of loans outstanding decreased to 1.29 % at December 31, 2002 from 1.42% at the same time last year. The ratio of general allowances to risk weighted assets reduced to 102 basis points at December 31, 2002 from 110 basis points at December 31, 2001. However, we remain comfortable that our general provisions are adequate.

Balance sheet: Total assets at December 31, 2002 were $35.2 billion, up $1.9 billion from $33.3 billion at December 31, 2001. Loans increased by $2.0 billion to $23.9 billion due primarily to a $1.4 billion increase in residential mortgages, net of securitizations, and $0.4 billion in loans to businesses and governments. These increases more than offset a reduction in loans of about $0.4 billion due to the transfer of the Seattle and Portland branches to HBUS.

Total deposits increased $1.7 billion from $26.7 billion to $28.4 billion at December 31, 2002. Deposits from individuals grew $1.0 billion to $14.4 billion and businesses and government deposits increased by $1.6 billion to $13.2 billion.

Total assets under administration: Funds under management were $11.9 billion at December 31, 2002 compared to $9.6 billion at December 31, 2001. The acquisition of MLHSBC added $1.9 billion in funds under management as at December 31, 2002. Including custody and administration balances, total assets under administration were $15.1 billion compared with $12.2 billion at December 31, 2001. Net new funds invested by customers during 2002 more than offset the fall in the equity markets experienced during the year.

Management's Discussion and Analysis (continued)

Condensed quarterly summary of statements of income

	2002				2001			
	Quarter ended				*Quarter ended*			
	Dec. 31	*Sept. 30*	*June 30*	*March 31*	*Dec. 31*	*Sept. 30*	*June 30*	*March 31*
				(unaudited, in millions)				
Net interest and other income	**$ 308**	**$ 293**	**$ 273**	**$ 296**	$ 278	$ 274	$ 265	$ 264
Total non-interest expenses	**191**	**165**	**205**	**169**	197	171	172	164
Income before taxes	**117**	**128**	**68**	**127**	81	103	93	100
Provision for income taxes	**(48)**	**(46)**	**(23)**	**(47)**	(26)	(42)	(38)	(41)
Non-controlling interest in income of trust	**(4)**	**(4)**	**(4)**	**(4)**	(4)	(4)	(4)	(4)
Net income	**65**	**78**	**41**	**76**	51	57	51	55
Preferred share dividends	**(2)**	**(2)**	**(2)**	**(2)**	(2)	(2)	(2)	(2)
Net income attributable to common shares	**$ 63**	**$ 76**	**$ 39**	**$ 74**	$ 49	$ 55	$ 49	$ 53

In the opinion of management, unaudited quarterly information contains all adjustments necessary for a fair presentation of such information. All such adjustments are of a normal and recurring nature.

Impact of estimates, judgement issues and selection of accounting policies on financial statements

Inherent in the preparation of financial statements is the use of estimates. Estimates are required, particularly concerning the valuation of assets, allowances for impaired loans and credit losses and the estimation of liabilities and provisions, which could affect reported amounts in the financial statements including the determination of net income.

In addition, the selection and application of some accounting policies also involves the use of estimates and the application of judgement, which could have a significant impact on reported results. The application of new accounting policies in 2002, which involve the use of judgement, include employee future benefits and stock based compensation.

Accounting for credit losses and estimation of general allowances

Under HSBC's accounting policy set out in notes 1(e) and 1(g) to the financial statements, HSBC records its loans as the amount advanced less an allowance for credit losses. Assessing the adequacy of the allowance for credit losses is inherently subjective, as it requires making estimates including the amount and timing of expected future cash flows that may be susceptible to significant change.

Specific allowances are maintained for loans that are currently impaired. HSBC also holds a general allowance for those loans, that may be impaired but have not yet been identified as so. See comments under Impaired Loans and Allowances on page 23 of Management's Discussion and Analysis for further details in respect of the calculation of the general allowance.

Accounting for employee future benefits

As part of employee compensation, HSBC provides employees with pension and other post-retirement benefits, such as extended healthcare, to be paid after employees retire. The accounting policy for employee benefits is set out in note 1(m) to the financial statements. In certain cases, the amount of the final benefit may not be determined until some years into the future, particularly for defined benefit pensions, where the payment is based on a proportion of final salary and upon years

of service. Although HSBC contributes to the pension plans to provide for employee entitlements, the actual amount of assets required depends upon a variety of factors such as the investment return of the plan assets, the rate of employee pay rises and the number of years over which the ultimate pension is to be paid.

Due to the long term nature of the contribution and payment periods, changes in long term rates could have a material impact on reported financial results.

After consultation with HSBC's actuaries, assumptions are made regarding the long term rate of investment return on pension plan assets, the discount rate applied to accrued benefit obligations, rates of future compensation increases and trends in health care costs. The assumptions used by HSBC are set out in note 13 to the financial statements. The most significant impact is a change in the discount rate applied to accrued benefit obligations. Under current accounting standards, the discount rate to be applied is a long term bond rate rather than the estimated future performance of plan assets. This rate has decreased recently resulting in a considerable increase in the amount that must be set aside to cover the obligations. In addition, in both 2002 and 2001, equity investments experienced considerable declines in value which have impacted the value of plan assets. This will cause a reduction in expectations for the rate of the long term return on plan assets, which will result in an increase in pension expense. In addition, the impact of the loss in the current value of the plans' assets will require additional contributions to cover the shortfall.

Stock based compensation

Canadian generally accepted accounting principles ("Canadian GAAP") allows HSBC to make a choice on whether or not to adopt the "fair value" method of accounting for any stock based compensation provided to employees. If the fair value method is not adopted, disclosure is required for what the charge would have been if the fair value method had been adopted.

Although employees are granted options for shares of HSBC's ultimate parent HSBC Holdings, no payment is made to HSBC Holdings for these options and consequently there is no impact on HSBC's financial position.

In addition, the notional charge for these options under the "fair value" method is based upon the theoretical fair value of the options of HSBC Holdings, calculated using a binomial model producing similar results to the Black-Scholes model. Although HSBC Holdings is HSBC's parent, it operates in a significantly different market than HSBC. There is no certainty the theoretical option price or " fair value" calculated for HSBC Holdings options using this model is truly representative of what the fair value of an option on HSBC Bank Canada shares would be on a stand alone basis. In addition, the fair value of options calculated using the "fair value" method does not reflect the actual issue price and any discount the shares might be to market, if actually issued.

Accordingly, as permitted under Canadian GAAP, management has decided not to adopt the "fair value" method, although the required pro-forma disclosure is provided in note 12 to the financial statements.

Off balance sheet exposures

As part of normal banking operations, HSBC enters into a number of financial transactions, which have a financial impact on HSBC, but are not recorded as liabilities in the consolidated financial statements. These are considered "off balance sheet exposures". These types of exposures are contingent and may not necessarily, but in certain circumstances could, involve HSBC incurring a liability in excess of amounts recorded as liabilities. These include guarantees and letters of credit, derivative financial instruments and securitizations.

Guarantees and letters of credit

As part of its normal banking operations, HSBC routinely issues guarantees and letters of credit on behalf of customers to meet their banking needs. Letters of credit are often used as part of the payment and documentation process in international trade arrangements. Guarantees are often provided on behalf of clients' contract obligations, particularly providing credits to clients in overseas trading transactions, or in construction financings. Guarantees and letters of credit are considered contingent obligations and are not included in the balance sheet as there are no actual advances of funds. Any payments actually made under these obligations would be recorded as a loan. For credit risk management purposes, HSBC considers guarantees and letters of credit as part of clients' credit facilities, which are subject to appropriate risk management procedures. Letters of credit and guarantees are considered part of HSBC's overall credit exposure as set out in the analysis of the loan portfolio on pages 21 to 22, and as set out in note 16 to the financial statements.

Management's Discussion and Analysis (continued)

Derivative financial instruments

As part of its overall risk management strategy, HSBC enters into a variety of financial arrangements known as derivatives to manage or reduce its risks in certain areas.

Derivatives include forward foreign exchange transactions where counter-parties agree to exchange foreign currencies at a fixed rate on a future date. Interest rate swaps are agreements to exchange cash flows of differing characteristics (e.g. fixed rate for a floating rate based on an underlying reference rate or index) based on a notional principal amount outstanding for a fixed period in the future.

Derivatives are often used to manage loans and deposits with differing maturity dates, or foreign currency assets and liabilities of differing amounts, so that adverse changes in interest rates or foreign exchange rates do not expose HSBC to significant financial risks.

The key issue for derivatives is not the notional amount of the derivatives, but the replacement cost of any instrument if the market value of the underlying reference rate or index has changed.

Information on the use of derivative instruments is set out in note 19 to the financial statements. Accounting policies on the use of derivatives are set out in note 1(o), and the use of derivatives is subject to strict monitoring and appropriate internal control procedures to ensure no unauthorized transactions are entered into on behalf of HSBC.

Securitizations

From time to time, as part of its liquidity, funding and capital management processes HSBC assembles pools of assets, including residential mortgages, automobile loans and lines of credit and sells security interests in these assets to unrelated third parties. The transactions, which are governed by purchase and sale contracts, are generally conducted through Special Purpose Entities, sometimes known as SPE's.

These purchase and sale contracts provide for the retention by HSBC of the excess spread, being the interest and fees collected from customers exceeding the return paid to investors in the special purpose vehicle. HSBC generally retains the responsibility for servicing the underlying assets sold, which are transferred on a fully serviced basis.

In almost all securitizations, some form of credit enhancement is provided. In some cases, residential mortgages securitized are insured by the Canada Mortgage and Housing Corporation, and no credit enhancement is required. In other securitizations, HSBC agrees to cover any deficiencies in cash flows up to a pre-determined amount, which is generally known as "first loss protection." Normally the amount of the first loss protection is in excess of the amount of expected credit losses, and HSBC is required to hold these amounts in segregated cash deposits.

Accounting policies for securitizations are set out in note 1(q) to the financial statements. Gains on securitizations of assets take into account expected credit losses on any transactions. HSBC's obligations to cover "first loss" in excess of these credit expected losses are not provided for in the balance sheet. Information on our securitizations, including the maximum obligations under first loss protection provisions, is set out in note 3(b) to the financial statements.

Valuation of assets and liabilities

During the normal course of its business, HSBC makes loans, purchases investments and accepts deposits at market rates prevailing at the time the asset was purchased or the deposit accepted.

The valuation of the assets or liabilities is dependent upon the purpose of the investment. Instruments purchased with the intention of resale for trading purposes are included in HSBC's trading portfolio or trading book. This portfolio is revalued daily and recorded at the market or fair value, sometimes known as "marked to market". Any gains or losses arising from the changes in the balance sheet valuation are recorded in the income statement as trading income.

Assets purchased and liabilities accepted for long term investment purposes are included in the investment or "banking" portfolio. Instruments in this portfolio are recorded at cost or amortized cost and interest income or expense or investment income is recorded on an accrual basis. Assets are not revalued to reflect changes in interest and or market rates, as the expectation is they will be held to maturity, and the recorded value of the asset realized in the normal course of business. If, however, there has been a decrease in the value of an asset included in the banking book other than on a temporary basis, a provision will be established in accordance with HSBC's accounting policies.

Depending on the nature of the instrument, the recorded values of banking book assets or liabilities may be different to the fair values. Information on the fair value of assets and liabilities is set out in note 18 to the financial statements. Accounting policies in respect of assets and liabilities are set out in note 1 to the financial statements.

Capital Management

HSBC manages its capital resources to ensure their efficient use in the generation of shareholder value while supporting business activities, including the asset base and risk positions, as well as providing prudent depositor security and complying with all applicable regulatory requirements.

HSBC's ultimate parent, HSBC Holdings, is well capitalized with a Tier 1 capital ratio of 9.0% and a total capital ratio of 13.3% at December 31, 2002. HSBC manages its capital in accordance with HSBC Holdings' corporate policies and external regulatory requirements. HSBC Holdings is regulated by the Financial Services Authority (United Kingdom).

Capital adequacy for Canadian federally incorporated financial institutions is regulated by the Superintendent of Financial Institutions Canada (the "Superintendent"). Guidelines issued by the Superintendent's office are based upon recommendations for capital adequacy standards currently provided by the Bank for International Settlements ("BIS"). Although the BIS continues to recommend financial institutions maintain 4% and 8% Tier 1 and total capital ratios, respectively, the Superintendent recommends Canadian banks maintain minimum Tier 1 and total capital ratios of 7% and 10%, respectively.

The BIS is in the process of developing new standards for capital adequacy in the "Basel 2" capital adequacy framework expected to be in place by the end of 2006. This new framework will have a significant impact on banks as it requires capital to be held covering operational risk and market risk as well as credit risk. In addition, the calculation of risk-weighted assets will be considerably more complex than the current framework. The HSBC Group is developing a number of systems and tools in preparation for the introduction of Basel 2.

Tier 1 capital is the permanent capital of a bank, comprising common shareholders' equity, qualifying non-cumulative preferred shares, contributed surplus and retained earnings. Tier 2 capital includes subordinated debentures, general allowances and cumulative preferred shares. Total capital comprises both Tier 1 and Tier 2 capital. The Tier 1 capital ratio was 8.4% and the total capital ratio was 11.4% at December 31, 2002. This compares with 8.6% and 11.3%, respectively, at December 31, 2001.

The Canada Deposit Insurance Corporation ("CDIC") has a tiered, differential insurance premium ratings system, which includes targets for capital adequacy. One of the measures CDIC uses in determining whether a financial institution is well capitalized is an assets (as defined by CDIC) to regulatory capital multiple. CDIC regards a financial institution as being well capitalized if it maintains an assets to regulatory capital multiple of less than 85% of the Superintendent's maximum permitted assets to capital multiple for each individual institution. The Superintendent permits HSBC to maintain an assets to capital multiple of up to 20 times. HSBC targets to be prudently below CDIC's more conservative threshold of 17 times and at December 31, 2002, HSBC's multiple was 14.4 times.

HSBC has formal capital management policies, which have been approved by the Board of Directors and HSBC Holdings, and which have been reviewed by the applicable regulatory authorities. These capital management policies lay out a strict regime of capital monitoring, targets, limits and maintenance actions. HSBC Finance and Treasury departments manage compliance with the policies on a day-to-day basis, with weekly monitoring by HSBC's Asset and Liability Committee ("ALCO"). ALCO is chaired by the Chief Financial Officer and includes the Chief Executive Officer, Chief Operating Officer and certain other senior executives, including those responsible for credit, risk management, marketing and sales and treasury.

HSBC employs well-developed personal and commercial relationship management performance measurement tools to ensure shareholder capital is efficiently deployed by its major business segments. These tools measure the value added by each customer relationship against the capital required to support the risk-taking facilities granted. Capital necessary to support customers is determined according to the various requirements of the Superintendent, CDIC and BIS noted above.

HSBC monitors and adopts techniques in capital management, managing the dynamic of maximizing shareholder value against the fundamental need to be prudently capitalized.

Management's Discussion and Analysis (continued)

Regulatory Capital Ratios

HSBC's regulatory capital and capital adequacy ratios and its assets to capital multiple are as follows:

	As at December 31	
	2002	2001
	(in millions, except ratios)	
Tier 1 Capital		
Common shares	**$ 950**	$ 935
Contributed surplus	**165**	165
Retained earnings	**433**	387
Non-cumulative preferred shares	**125**	125
Non-controlling interests in trust and subsidiary[1]	**230**	230
Goodwill	**(5)**	(6)
Total Tier 1 capital	**1,898**	1,836
Tier 2 Capital		
Subordinated indebtedness (net of amortization)	**492**	406
General allowance for credit losses	**198**	186
Total Tier 2 capital	**690**	592
Total Tier 1 and Tier 2 capital	**2,588**	2,428
Securitization-related deductions	**(6)**	(7)
Total capital available for regulatory purposes	**$ 2,582**	$ 2,421
Total risk-weighted assets	**$ 22,659**	$ 21,416
Regulatory Capital Ratios		
Tier 1 capital	**8.4%**	8.6%
Total capital	**11.4%**	11.3%
Assets to capital multiple	**14.4x**	14.5x

(1) *Includes $200 million of innovative tier 1 HSBC Canada Asset Trust Securities (HSBC HaTS).*

Risk-weighted Assets

Risk-weighted assets requiring capital support arise from the provision to customers of credit and other risk facilities. Risk-weighted assets are determined by HSBC by applying the specific weighting factors provided by the Superintendents' capital adequacy guidelines. HSBC's risk-weighted assets are as follows:

	As at December 31	
	2002	2001
	(in millions)	
On-Balance Sheet Assets		
Cash resources	**$ 699**	$ 696
Securities	**348**	286
Mortgage loans	**4,446**	3,826
Other loans	**12,797**	12,172
Acceptances	**2,374**	2,571
Other assets	**529**	524
Total on-balance sheet assets	**21,193**	20,075
Off-Balance Sheet Instruments		
Guarantees and letters of credit	**1,031**	888
Other	**292**	281
Subtotal	**1,323**	1,169
Derivatives[1]	**143**	172
Total off-balance sheet instruments	**1,466**	1,341
Total risk-weighted assets	**$ 22,659**	$ 21,416

(1) *Derivatives are stated at their risk weighted equivalent.*

Regulatory Capital Generation

HSBC's regulatory capital generation is as follows:

	As at December 31			
		2002		2001
		(in millions)		
Internally Generated Capital				
Net income	**$**	**260**	$	214
Effect of accounting changes (1)		**13**		–
Acquisition of subsidiary (2)		**(19)**		–
Dividends		**(208)**		(8)
General allowance for credit losses		**12**		46
Other		**2**		(2)
		60		251
External Financing				
Issue of common equity (2)		**15**		–
Subordinated indebtedness (net of amortization)		**86**		(4)
Total increase in regulatory capital	**$**	**161**	$	247

(1) *Refer to Note 24 of the financial statements.*

(2) *Refer to Note 2 of the financial statements.*

In 2002, $15 million in common equity was issued in connection with the acquisition of MLHSBC. In addition, HSBC raised $100 million in Tier 2 qualifying, subordinated debenture capital by way of private placement. Dividends of $200 million were paid on common shares in 2002.

Risk Management

All business activities require the management of particular risks or combinations of risks. Risk management is the identification, analysis, evaluation and management of the factors which could adversely affect HSBC's resources, operations and financial results. The risk factors most likely to affect HSBC are credit, market, structural, liquidity, fiduciary and operational risks. HSBC believes it conservatively manages its exposure to these risk factors. Formal risk management policies have been established which identify and analyze these risk elements and, where required, set appropriate risk limits. HSBC continually monitors these risks and limits them by means of internal control measures, which management considers are up to date and reliable.

HSBC reviews and modifies its risk management policies and systems regularly to reflect changes within HSBC and within the markets in which it operates. The Board of Directors approves HSBC's risk management policies. HSBC's overall risk management limits are set, taking into account HSBC Holdings' overall risk limits.

In 2002, a Risk Management Committee was created with the responsibility to manage all significant risks to which the bank is exposed. The Risk Management Committee will:

- Identify and measure risks to which HSBC is exposed and consider whether those risks are significant;
- Develop and recommend for approval, appropriate risk management policy and procedures regarding those activities and units which incur significant risk, including extraordinary event planning;
- Provide direction regarding the organization's risk philosophy and appetite including consideration and acceptability of new or unusual risk;
- Monitor adherence to risk management policies and procedures; and
- Report any policy or major practice change, unusual situations, significant exceptions, new directions or products to HSBC's Executive Committee and Board for review, ratification or approval.

Responsibility for measuring, monitoring and controlling market, liquidity and structural risk are sub-delegated to ALCO.

Management's Discussion and Analysis (continued)

Market Risk Management

Market risk is the risk to the institution's financial condition resulting from adverse movements in market rates or prices, such as interest rates, foreign exchange rates, or equity prices on a portfolio of trading assets. Market risk arises on financial instruments included in HSBC's trading book. Trading book assets are valued at market prices and as prices rise and fall, depending on market factors and conditions, earnings will be directly impacted.

HSBC makes markets in interest rate, exchange rate and equity derivative instruments, as well as in debt, equity and other securities. Trading risks arise either from customer-related business or principal investing activities, where HSBC trades investments for its own account.

Market risk is managed through risk limits set out by ALCO and approved by the Board of Directors.

Risk limits are determined for each portfolio and are set by product and risk type, with market liquidity being a principal factor in determining the levels of limits set. Limits are reviewed annually using a combination of risk measurement techniques, including present value of a basis point ("PVBP"), value at risk ("VaR"), foreign exchange exposure limits, maximum loss limits, options premium paid limits and product and issuance limits.

PVBP is a sensitivity measure which calculates the impact on the present value of a transaction (or a portfolio of transactions) of a one basis point movement in rates. VaR is a statistical technique which estimates the potential losses that could occur on risk positions taken due to movements in market rates and prices over a specified time horizon and to a given level of confidence.

Risk limits are set for each operation and are dependent upon the size, financial and capital resources of the entity, market liquidity of the instruments traded, business plan, experience and track record of management and dealers, internal audit gradings, support function resources, and computer systems. Risk limits are reviewed and set on an annual basis.

Structural Risk

Structural risk consists of interest rate risk and foreign exchange risk as it relates to assets included in the banking book, including those in HSBC's consolidated balance sheet and off-balance sheet items. Instruments included in the banking book are valued at cost plus accrued interest (the accrual basis) and changes in rates and prices may not directly impact earnings. However, to the extent that assets and liabilities are not directly matched either by interest or exchange rates, any changes in the mix of assets or liabilities will affect earnings.

Interest Rate Risk

Interest rate risk arises primarily out of differences in the term to maturity or repricing of the assets and liabilities both on and off balance sheet. These interest rate risk exposures, or "gaps", are monitored by ALCO on a weekly basis against prescribed limits. The gap position measures assets and liabilities based on contractual repricing data as well as incorporating assumptions on customer behaviour on products with a degree of optionality as to prepayment, redemption or repricing (such as redeemable deposit products and mortgages with prepayment options). These assumptions, which are based on historical behavioural patterns, are periodically reviewed by ALCO.

HSBC believes it takes a conservative approach in setting limits on these mismatched positions. Limits are established based on the impact on net interest income of an immediate and parallel upward shift in the relevant yield curves of one percent. HSBC also has established limits on these mismatched positions in terms of Dollars at Risk, VaR and PVBP.

A variety of cash and derivative instruments (principally interest rate swaps) are used to manage interest rate risk. Derivatives are used to modify the interest rate characteristics of related balance sheet instruments and to hedge anticipated exposures when market conditions of price and liquidity are considered beneficial.

Interest rate risk also arises in the fixed income trading activities. Limits have been established in terms of VaR, PVBP, maximum loss limits, product and issuance limits, and premium paid limits for option contracts.

Foreign Exchange Risk

Foreign exchange risk arises from foreign currency denominated asset and liability positions taken by HSBC. HSBC buys and sells currencies in the spot, forward, futures and options markets, on behalf of its customers and for its own account, to manage its own currency exposures arising from assets and liabilities denominated in currencies other than the Canadian dollar. Limits have been established as to the magnitude of the exposure on a currency-by-currency basis as well as maximum loss limits on any position held.

Liquidity Risk Management

Liquidity is the risk that an institution will be unable to meet its obligations as they come due because of an inability to liquidate assets or obtain adequate funding (funding liquidity risk), or it cannot easily unwind or offset specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions (market liquidity risk).

HSBC manages the liquidity structure of its assets, liabilities and commitments so cash flows are appropriately balanced and all funding obligations are met when due. HSBC also ensures compliance with Canadian regulatory requirements. Treasury department manages liquidity on a day-to-day basis.

ALCO oversees compliance with liquidity requirements on a weekly basis by monitoring:

- projected cash flows and the levels of related liquid assets,
- specified balance sheet liquidity ratios against prescribed limits,
- depositor concentration in terms of overall funding mix and to avoid undue reliance on large individual and non-core depositors, and
- liquidity contingency plans.

Customer deposits form a significant portion of overall funding. Considerable importance is placed on the stability and growth of this core deposit base. Capital markets are accessed for the purposes of providing additional funding, maintaining a presence in the marketplace and aligning asset and liability maturities.

Limits have been established for balance sheet ratios and minimum periods of forecast positive cumulative cash flow as well as contingencies to meet cash flow needs.

Fiduciary Risk

Fiduciary risk is the potential an institution will provide improper sales or investment advice to clients or manage clients' assets incorrectly. Fiduciary risk differs from the risks institutions face as intermediaries, inasmuch as it arises from dealing with or advising on the assets of others. Fiduciary risk relates to the requirement to conduct activities in a manner consistent with the customer's stated objectives and to place the interests of the customer above those of the institution.

Fiduciary risk is controlled and managed by ensuring appropriate investment goals and mandates are established through the appropriate "know your client" actions and following correct procedures when exposed to fiduciary issues.

Operational Risk

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

This type of risk includes fraud, unauthorized activities, errors, and settlement risk arising from the large number of daily banking transactions occurring in the normal course of business. Also, there are a wide variety of business and event risks such as legal, taxation, regulatory, human resources and reputational inherent in all business activities. Operational risk can be managed and mitigated but never completely eliminated.

HSBC aims to minimize loss through a framework requiring all units to identify, assess, monitor and control operational risk. This identification and self-assessment process is subject to a review by HSBC's Risk Management Committee, and approved by the Board of Directors.

Management's Discussion and Analysis (continued)

HSBC manages operational risk through disciplined application and evaluation of internal controls, appropriate segregation of duties, independent authorization of transactions, and regular, systematic reconciliation and monitoring of transactions. This control structure is complemented by independent and periodic reviews by HSBC's Internal Audit department.

In addition to an enterprise-wide risk management process, we have established business continuity and event management practices.

Credit Risk Management

Credit risk arises when reliance is placed on a counterparty to honour contractual obligations arising out of credit granting, credit substitutes (such as letters of credit and guarantees) and contingent risk relating to derivative contracts such as forward foreign exchange contracts and interest rate swaps. A concentration of credit risk may arise when the ability of a number of counterparties to meet their contractual obligations are similarly affected by external factors. Examples of concentration risk would include geographic, industry or environmental factors. Therefore, diversification of credit risk is a key concept by which HSBC is guided.

Credit risk is managed in accordance with a credit policy, established after consultation with HSBC Holdings, that has been approved by the Board of Directors. Risk limits and credit authorities are delegated to senior credit management, who in turn delegate to line management. Credit exposures in excess of certain levels may require the concurrence of HSBC Holdings, to ensure they remain within the HSBC Group's international risk limits.

The Board of Directors and the Audit Committee of the Board meet quarterly to review portfolio credit quality, geographic, product and industry distributions, large customer concentrations and adequacy of loan provisions. Policies relating to large customer concentration and industry, product and geographic distribution are approved by the Board in line with HSBC Group policy. All new major authorized facilities, derivative exposure and special credit problem facilities are also reviewed quarterly by the Audit Committee of the Board. The appetite for credit risk is expressed through Commercial and Personal Lending Guidelines that conform with HSBC Group guidelines and are approved quarterly by the Audit Committee of the Board and disseminated throughout HSBC.

There is a disciplined approach to managing credit risk through ongoing monitoring of all credit exposures at branches, with weaker quality credits being reviewed at more frequent intervals. Problem and impaired loans are identified at an early stage and are actively managed by a separate dedicated Special Credit management unit. The Credit Department reviews and adjudicates credit risk outside of branch management's delegated lending limits and reviews branch credit decisions to ensure these decisions reflect HSBC's portfolio management objectives.The Credit Department may approve credits not meeting the lending guidelines on an exception basis with appropriate risk mitigation and reward considerations.

Exposure to banks and financial institutions involves consultation with a dedicated unit within HSBC Group that controls and manages these exposures on a global basis. Similarly cross-border risk is also controlled globally by this unit through the imposition of country limits. A review of all credit matters undertaken by branch and head office credit managers is completed regularly by internal auditors to ensure all policies, guidelines, practices, conditions and terms are followed.

Segmentation of credit risk is ensured through a formal and strictly managed risk grading system that is assigned to all borrowing clients and monitored closely to ensure changes in credit risk are mapped to the appropriate credit grade. Credit scoring and related bureau-based management techniques, along with judgmental management, are used to manage risk associated with consumer clients.

Real estate lending is managed within well-defined parameters with an emphasis on relationship and project sponsorship for all new transactions. Where HSBC is dependent upon third parties for establishing asset values, consistent and transparent valuations are ensured through maintaining a list of approved professionals that meet the standards required by HSBC. Management believes a strong control environment exists to ensure credit risks are appropriately managed through accurate recording, approval and monitoring throughout HSBC.

Loan Portfolio

In assessing its loan portfolio, HSBC includes all of its credit exposures, including customers' liabilities under acceptances, guarantees and letters of credit. The following is an analysis of the constituents of the portfolio:

	As at December 31	
	2002	2001
	(in millions)	
Loans included in financial statements, net of allowances	**$ 23,869**	$ 21,870
Allowance for credit losses	**311**	315
Customers' liabilities under acceptances	**2,374**	2,571
Letters of credit	**434**	469
Guarantees	**1,244**	1,169
Total loans	**28,232**	26,394
Non-performing loans	**(225)**	(282)
Total performing loans	**$ 28,007**	$ 26,112

The performing loan portfolio is comprised of commercial (including corporate and government loans), consumer and residential mortgage loans with an approximate split between commercial and personal loans (including residential mortgages) of 56% to 44%. The geographic distribution of the loan portfolio at December 31, 2002 was British Columbia (48.4%), Ontario (27.5%), Western Canada (including Alberta, Saskatchewan and Manitoba) (13.7%) and the Quebec and Atlantic Region (10.4%).

Performing commercial loans at December 31, 2002 aggregated $15.8 billion and were distributed across various industry sectors with the highest concentrations in real estate (28.4%), service industries (17.6%) and wholesale/retail trade (17.1%). Large customer concentrations are borrowing groups where approved facilities exceed 10% of HSBC's regulatory capital base. As at December 31, 2002, 10% of HSBC's regulatory capital base amounted to approximately $258 million.

The following tables, in which commercial includes customers' liabilities under acceptances, letters of credit and guarantees, provide details of the overall performing loan portfolio, and geographic distribution, industry distribution and large customer concentration:

Performing Loan Portfolio

	As at December 31			
	2002		2001	
	(in millions, except ratios)			
Consumer loans	**$ 2,405**	**8.6%**	$ 2,220	8.5%
Residential mortgages	**9,785**	**34.9%**	8,353	32.0%
Total consumer	**12,190**	**43.5%**	10,573	40.5%
Total commercial	**15,817**	**56.5%**	15,539	59.5%
Total performing loans	**$ 28,007**	**100.0%**	$ 26,112	100.0%

Performing Loan Portfolio
Geographic Distribution

	As at December 31			
	2002		2001	
	(in millions, except ratios)			
British Columbia	**$ 13,552**	**48.4%**	$ 12,257	46.9%
Western Canada	**3,839**	**13.7%**	3,623	13.9%
Ontario	**7,701**	**27.5%**	7,032	26.9%
Quebec and Atlantic	**2,915**	**10.4%**	2,713	10.4%
US Branches	**–**	**0.0%**	487	1.9%
Total performing loans	**$ 28,007**	**100.0%**	$ 26,112	100.0%

Management's Discussion and Analysis (continued)

Performing Commercial Loan Portfolio
Industry Distribution

	As at December 31					
	2002			2001		
	(in millions, except ratios)					
Real estate	$	**4,489**	**28.4%**	$	4,254	27.4%
Hotels and hospitality		**920**	**5.8%**		988	6.4%
Trade		**2,699**	**17.1%**		3,623	23.3%
Services		**2,785**	**17.6%**		2,907	18.7%
Manufacturing		**2,195**	**13.9%**		2,224	14.3%
Other		**2,729**	**17.2%**		1,543	9.9%
Total commercial loans	**$**	**15,817**	**100.0%**	$	15,539	100.0%
As a percentage of total performing loans	**$**	**28,007**	**56.5%**	$	26,112	59.5%

Performing commercial loan portfolio
Large customer concentration

	As at December 31			
	2002		2001	
	(in millions, except ratios)			
Large customer concentration	**$**	**2,606**	$	2,460
As a percentage of total commercial loans		**16.5%**		15.8%
As a percentage of total performing loans		**9.3%**		9.4%

Credit Quality

HSBC categorizes the credit quality of its loan portfolio as follows:

- *Satisfactory* – Borrower's financial condition and future capacity to repay is considered satisfactory.
- *Watch* – Borrower's financial condition has shown sustained or continued deterioration and requires frequent monitoring. The capacity to repay remains satisfactory.
- *Sub-standard* – Borrower's financial condition is weak. However, it is still expected that full repayment will be received.
- *Impaired* – Loans are considered impaired if an amount is contractually 90 days in arrears or management is of the opinion there is no longer reasonable assurance as to the ultimate collectibility of all or some portion of principal or interest. Impaired loans are classified as non-performing. Specific provision is made for any anticipated loss.

The following table sets forth an analysis of the total loan portfolio on the basis of the above credit quality categories:

Performing and Non-Performing Loan Portfolio
Credit Quality

	As at December 31					
	2002			2001		
	(in millions, except ratios)					
Satisfactory	$	**26,774**	**94.9%**	$	24,878	94.3%
Watch		**861**	**3.0%**		923	3.5%
Sub-standard		**372**	**1.3%**		311	1.2%
Impaired		**225**	**0.8%**		282	1.0%
Total loans	**$**	**28,232**	**100.0%**	$	26,394	100.0%

Almost 95% of the total loan portfolio is categorized as satisfactory. Credit quality of the portfolio has remained stable over the past five years. As at December 31, 2002, $225 million (1.0%) of the loan portfolio was impaired, with specific and general allowances providing 138% (December 31, 2001 - 112%) coverage of these loans.

Impaired Loans and Allowances

Allowances for credit losses are maintained at a level to absorb all estimated credit-related losses in the portfolio, which may arise from both on and off balance sheet credit exposures. These exposures include deposits with other regulated financial institutions, loan substitute securities, loans, acceptances, derivative instruments and other credit-related contingent liabilities, such as letters of credit and guarantees.

Assessing the adequacy of the allowance for credit losses is inherently subjective as it requires making estimates, including the amount and timing of expected future cash flows, that may be susceptible to significant change. Specific allowances are recorded on a loan-by-loan basis for those loans where management believes the ultimate collectibility of all or some portion of principal or interest is in doubt, to reduce the book value to the expected recovery level. The level of specific allowances are determined on an individual asset basis for all commercial loans and some consumer loans, while a formula approach is utilized for consumer loans with similar characteristics. A number of methods are used in determining specific allowances, including discounted value of future cash flows, observable market values or the fair values of the underlying security. Impaired loans are reviewed at least quarterly and the appropriate specific provisions are recorded based on estimated net realizable amounts.

The general allowance represents management's best estimate of probable losses within the portion of the portfolio that have not yet been specifically identified as impaired. HSBC has established a methodology for management's use in establishing general allowances. The methodology involves the application of expected loss factors to outstanding and undrawn facilities. The general allowance for large business and government loans and acceptances in the model is based on the application of expected default and loss factors. For more homogeneous portfolios, such as residential mortgages, small and mid market business loans and personal loans, the determination of the general allowance is done on a product portfolio basis. The losses are determined by the application of loss ratios determined through the analysis of write-off trends over an economic cycle, adjusted to reflect changes in the product offerings and credit quality of the pool. Also included are portfolio adjustments that include consideration of general economic and business conditions, recent loan loss experience and trends in credit quality and concentrations, particularly where experience is considered low in relation to the industry as a whole. This allowance also reflects model and estimation risk, but does not represent future losses. In establishing the amount of general allowances management has been guided by this methodology.

The following table provides details of the impaired loan portfolio:

	As at December 31	
Impaired Loan Portfolio	**2002**	2001
	(in millions)	
Commercial		
Real estate	**$ 53**	$ 82
Manufacturing	**38**	34
Trade	**26**	38
Services	**8**	12
Other	**59**	79
Total commercial loans	**184**	245
Personal		
Consumer loans	**16**	13
Residential mortgages	**25**	24
Total personal loans	**41**	37
Total impaired loans	**$ 225**	$ 282
Specific allowances	**$ 80**	$ 80
General allowances	**231**	235
Total allowance for credit losses	**$ 311**	$ 315
Net impaired loans	**$ (86)**	$ (33)

Management's Discussion and Analysis (continued)

The following table shows the coverage of specific allowances as a percentage of the related impaired loans:

	As at December 31	
Coverage by Specific Allowance	**2002**	2001
Commercial real estate	**21%**	12%
Commercial manufacturing	**45%**	29%
Commercial other	**46%**	38%
All commercial	**39%**	28%

The following table sets out the coverage of general provisions as a percentage of total performing loans and risk-weighted assets. Management considers this level of general allowances to be adequate in relation to its methodology, the Superintendent's benchmark formula and HSBC's major domestic bank peers.

	As at December 31	
Coverage by General Allowance	**2002**	2001
As a percentage of total performing loans	**0.82%**	0.90%
As a percentage of risk-weighted assets	**1.02%**	1.10%

Provisions for Credit Losses

The following table sets out the provisions for credit losses charged to the consolidated statements of income. Specific provisions have increased due to the deterioration of a small number of commercial credit facilities, concentrated in the telecommunications sector. HSBC is confident this level of provisions is adequate for the remaining exposure in this sector.

	As at December 31	
	2002	2001
	(in millions, except percentages)	
Specific provisions	**$ 135**	$ 84
General provisions	**(8)**	8
Total provision for credit losses	**$ 127**	$ 92
Specific provisions as a percentage of total loan portfolio	**0.48%**	0.32%

Derivative Portfolio

The credit equivalent amount of derivative exposure is established by the current replacement cost of positions plus an allowance for potential future fluctuation of interest rate or foreign exchange rate derivative contracts. Derivatives are entered into primarily to support customer requirements and to assist HSBC in its management of assets and liabilities. The credit equivalent amount of the derivative portfolio by product type is as follows:

	As at December 31	
Products	**2002**	2001
	(in millions)	
Interest rate contracts	**$ 188**	$ 182
Foreign exchange contracts	**406**	474
Equity contracts	**12**	12
Total	**606**	668
Impact of master netting agreements	**(106)**	(92)
Net credit equivalent amount	**$ 500**	$ 576

Analysis of Financial Results and Operations by Business Segments

The following is a summary of selected consolidated financial information and other data for each of HSBC's major business segments:

	Year ended December 31, 2002				
	Personal financial services	*Commercial financial services*	*Wholesale banking*	*Treasury and markets*	*Total*
			(in millions, except ratios)		
Net interest income	**$ 432**	**$ 359**	**$ 23**	**$ 42**	**$ 856**
Other income	**204**	**134**	**61**	**42**	**441**
Total net interest income and other income	**$ 636**	**$ 493**	**$ 84**	**$ 84**	**$ 1,297**
Net income[(1)]	**$ 157**	**$ 134**	**$ (31)**	**$ 31**	**$ 291**
Percentage of total net income	**54.0%**	**46.0%**	**-10.7%**	**10.7%**	**100.0%**
Average assets	**$ 11,757**	**$ 13,036**	**$ 2,707**	**$ 7,327**	**$ 34,827**
Percentage of total average assets	**33.8%**	**37.4%**	**7.8%**	**21.0%**	**100.0%**

(1) *Before unallocated corporate expenses of $31 million, net of income taxes.*

	Year ended December 31, 2001				
	Personal financial services	*Commercial financial services*	*Wholesale banking*	*Treasury and markets*	*Total*
			(in millions, except ratios)		
Net interest income	$ 326	$ 358	$ 33	$ 37	$ 754
Other income	182	115	74	48	419
Total net interest income and other income	$ 508	$ 473	$ 107	$ 85	$ 1,173
Net income[(1)]	$ 84	$ 97	$ 30	$ 30	$ 241
Percentage of total net income	34.9%	40.2%	12.5%	12.5%	100.0%
Average assets	$ 9,981	$ 12,413	$ 2,719	$ 6,734	$ 31,847
Percentage of total average assets	31.3%	39.0%	8.5%	21.1%	100.0%

(1) *Before unallocated corporate expenses of $27 million, net of income taxes.*

During 2001, we realigned some of our operations and combined the Corporate and Institutional Banking ("CIB") business together with the Commercial and Institutional segments of our brokerage and asset management businesses to form the new "Wholesale Banking" business line. For 2002, the results of this new business line have been tracked separately and has replaced CIB as one of our reported business lines. The comparative information in this section has been restated to reflect this new structure.

Personal Financial Services

Client Base. PFS provides services to individuals through a segmented approach to understanding and meeting customer needs. Similarly, sales management maintains a balanced approach, focused on meeting clients' needs. To build on our high level of customer satisfaction, emphasis has and will continue to be placed on developing people and systems infrastructure to improve relationship management and effectiveness of cross-selling. PFS staff in branches are the main focus of our strategy. Most are trained as generalists, being able to deliver and sell a wide range of services and products to meet the needs of our clients. However, our staff are also able to quickly recognize cross-selling opportunities which require additional delivery or service requirements, making recommendations to customers to consult specialists for assistance.

Management's Discussion and Analysis (continued)

Products and Services. PFS offers a comprehensive range of financial products and services, including the following:

Personal Banking	*Asset Management*	*Brokerage*	*Insurance*	*Trust and Advisory*
Deposits and personal chequing accounts	Mutual funds	Full service	Auto	Estate planning
Residential mortgages	Segregated funds	On-Line	Home	Wills
Lines of credit	Personal portfolio management		Creditor	Investment administration
Personal loans			Travel	Executor and trustee services
Investments				
Debit & Credit cards				
Telephone banking				
Internet banking				
HSBC *Premier*				
Private client services				
Retirement products				

Delivery Channels. HSBC provides personal financial products and services through over 160 offices, including 120 branches, as well as ABMs, direct debit and other electronic delivery channels such as the internet and telephone call centres.

While the branch network remains our primary delivery channel, we continue to invest in, and grow, our Direct Banking area, which includes service and sales using the direct channels of the telephone and internet. Within our Direct Banking area, we are also actively growing our client acquisition capabilities and core asset and deposit growth via businesses such as third party deposit and loan broker channels and retail auto finance. The continued expansion of our Direct Banking division has evolved this area into an integral part of our drive for increased customer convenience, operating efficiencies and importantly, a diversified source of new customers and business. New mortgages sourced through our Mortgage Broker Centre grew 40% compared to 2001 and now represent 20% of all new residential mortgage funding for the Bank. Broker sourced fixed term deposits including RRSPs increased 107% compared to 2001 with this business providing a stable source of fixed term funding for our growing residential mortgage book. Telephone and internet sourced loans more than doubled in 2002 compared to 2001.

In 2002 we introduced a number of new products that have been attractive to existing and new customers. We launched our "Prime Minus" open mortgage which offers a Prime-50 basis point rate, open term and blended or interest only payment. We also offered a Stock Market Index linked GIC offering participation in Canadian, US and global equity markets and an attractively priced three-year term GIC. As noted earlier in this report, in 2002 we made a number of changes to our services particularly enhancing our sales environment through the introduction of *client*CONNECT and activity management. We redesigned our website increasing functionality and enhanced our Personal Internet Banking service. We have also started to benefit from the HSBC Group's best sales and service practices through quarterly meetings of PFS specialists from around the world.

We are growing our individual client base and market share using a segmented approach to meet client needs. This is achieved by ensuring clients with more extensive requirements receive a greater level of advisory service and by encouraging clients with more conventional transactions to utilize those delivery channels that most conveniently meet their needs. For example, private banking, through a relationship manager, provides targeted clients with a full complement of investment funds and services to plan, manage and protect their assets. Global Private Client Services are fully integrated wealth management centres combining Private Banking, Investment and Trust services for private segment clients. Initial results for our centres in Montreal and Vancouver have been positive, with loans and funds under management exceeding our initial expectations and during 2002, we also established a centre in Toronto.

HSBC *Premier* is a clear example of our segmented and customer driven approach to products and services development. This worldwide service for the HSBC Group's highly valued personal customers operates in 29 countries and territories including Canada. HSBC *Premier* provides an exclusive suite of banking, credit and investment services and special privileges. Relationship management is a vital part of the HSBC *Premier* service, with dedicated relationship managers or teams responsible for facilitating everyday transactions and helping to satisfy the wider financial needs of the customer. HSBC *Premier* customers have exclusive access to dedicated HSBC *Premier* centres in a number of cities in Canada including Montreal, Toronto and Vancouver and over 200 centres in other locations around the world. In addition to our "24-7" call centre support, which can now be accessed from five other countries, a worldwide travel assistance service is also available

around the clock. Several marketing initiatives were undertaken during 2002 involving HSBC *Premier*, which continues to be a focus, particularly as a cross-sell tool for clients of HSBC Securities.

HSBC Mutual Funds are managed through HSBC Investment Funds (Canada) Inc., a subsidiary of HSBC Asset Management (Canada) Limited. HSBC Mutual Funds, which are available in both US and Canadian dollars, can be distributed as load and no load funds, as well as through fee based financial advisors. HSBC Mutual Funds percentage of net sales continues to outpace our market share of both our bank peer group and the overall industry. Despite weak market conditions, our mutual funds achieved net sales in 2002 and, as a percentage of assets, our net sales are among the highest in our peer group and the industry as a whole. Mutual funds Internet enquiry functionality was launched during 2002.

HSBC Securities provides clients with a complete range of highly personalized investment and brokerage services, through more than 130 retail investment advisors located in cities across Canada with access to a worldwide network of research analysts. MLHSBC provides on-line, real time trading on stock exchanges in North America and the Hong Kong SAR through Internet delivery capability, and also accepts telephone orders through the company's toll-free telephone network. It can deliver service for all major exchanges in Europe, North America and the Asia-Pacific region. Operationally we have amalgamated the operations of MLHSBC and HSBC Securities. In 2003, we expect clients will have access to life insurance products through HSBC Insurance Agency (Canada) Inc. a subsidiary of HSBC Canadian Direct Insurance Incorporated.

Home, auto and travel insurance is delivered on a telephone sale basis to residents of British Columbia and Alberta through HSBC Canadian Direct Insurance. Its operations exceeded expectations in 2002 recording its best year to date. In addition, the number of policies outstanding surpassed 100,000 for the first time since inception. The decision by the publicly owned insurance company in British Columbia to increase rates is expected to provide additional growth opportunities and impetus as potential customers realize the well priced products we are able to offer them.

Selected Financial Information and Analysis. The following sets out consolidated financial information and other data for PFS:

	Year ended December 31	
	2002	2001
	(in millions)	
Net interest income	$ **432**	$ 326
Provision for credit losses	**(9)**	(20)
Other income	**204**	182
Non-interest expenses	**(365)**	(341)
Income before the under noted:	**262**	147
Provision for income taxes	**(100)**	(58)
Non-controlling interest in income of trust	**(5)**	(5)
Net income	$ **157**	$ 84
Average assets	$ **11,757**	$ 9,981

PFS contributed $157 million (54.0%) to total net income for the year ended December 31, 2002, before unallocated corporate expenses. With $11.8 billion in average assets, PFS represented 33.8% of total average assets at the end of 2002.

For the year ended December 31, 2002, net income before taxes from PFS increased 78.2% to $262 million compared to $147 million for 2001. Net interest income in 2002 benefited from significant growth in residential mortgages. This has been spurred on by the active housing market across Canada and has resulted primarily from the low interest rate environment and the impact of a number of new products introduced during 2002 such as the prime minus open term mortgage. Margins benefited from the effect of lower interest rates, particularly on funding costs, as maturing higher rate borrowings were replaced with lower cost funds. Credit quality remained sound despite challenging economic and market conditions. Fee income in 2002 continued to grow over 2001. A review of fees and service charges took place with a view to repositioning our fee structure, based on continued strong client feedback regarding our excellent customer service. This resulted in an increase in other income, which also benefited from higher volumes. However, revenue from wealth management was lower in 2002 than in 2001 due to the continued uncertainty in the equity markets, although mutual fund management fees, a relatively steady source of income from HSBC Asset Management, continued to grow as sustained net sales outpaced the market share in the industry. Creditor insurance and securitization are also key contributors to revenue, which increased in

Management's Discussion and Analysis (continued)

2002 compared to 2001, along with a positive contribution from HSBC Canadian Direct Insurance. Non-interest expenses were higher in 2002 compared with 2001, largely due to higher salaries and benefits associated with expanding the wealth management business, and a significant operating loss.

Commercial Financial Services

Client Base. CFS, which includes our middle market business, is one of HSBC's traditional strengths, both in Canada and worldwide. We serve a wide range of customers, from sole proprietors to publicly listed companies. HSBC is a popular choice for commercial customers looking for a comprehensive range of financial services, and excellent customer service.

Products and Services. CFS provides credit, cash management, treasury, trade finance, investment banking and other financial services and products to businesses in Canada, including the following:

Commercial and Corporate Banking	*Asset Management*	*Investment Banking*	*Merchant Banking*	*Treasury*	*Trade Finance*
Lines of credit Term financing Deposits Cash management Leasing Merchant credit card services and point of sale terminals Business Internet banking Hexagon Creditor life insurance	Portfolio and fund management Group RRSP Mutual funds	Corporate finance Mergers and acquisitions Advisory	Mezzanine finance Subordinated debt Working capital Private equity	Foreign exchange Deposits Fixed income Derivatives	Import and export finance

Delivery Channels. HSBC provides CFS through commercial branches and subsidiary offices, including those of HSBC Securities and HSBC Capital Canada as well as through HSBC Group offices in 80 countries and territories. Other delivery channels include the Internet, PC and telephone banking. The HSBC Group's proprietary worldwide payments and cash management platform, Hexagon, enables electronic account balance and transaction information, transfer of funds, bill payments and processing of trade finance documents.

CFS customers are assigned a relationship manager to facilitate their interface with the HSBC Group both locally and worldwide. HSBC also offers specialized relationship managers for professional partnerships and owner/operators in key markets. This decentralized approach has resulted in responsiveness and flexibility in the credit approval process, a factor which HSBC believes is a significant competitive advantage.

We offer a wide range of high quality cash management services that enable our customers to manage their local and international needs. Whatever the nature and location of our customers' business, they enjoy the benefits of our local expertise backed by our international cash management teams.

We continue to exploit the competitive advantage of being a member of the HSBC Group, in assisting Canadian companies trade in North America and internationally. We have the largest market share in Canada for handling import letters of credit, while we also rose to second position overall in Canada in terms of combined import & export letters of credit processed.

HSBC recognizes that our customers often do business outside of Canada and our employees work closely with colleagues in various countries to create effective solutions for customers doing business cross-border. In particular the North American Alignment initiatives resulted in increased awareness and flow of cross-border business. New customer relationships on both sides of the border have exceeded expectations, particularly in the key southern Ontario market and in the Pacific corridor, and the HSBC Group's worldwide connections have provided a number of sources of new business.

HSBC Capital Canada, our merchant-banking subsidiary, provides innovative financing solutions to well established Canadian companies with high growth potential, whose products and services appeal to both domestic and international markets. Investment capital activities fall into two categories: private equity, for longer-term, equity-oriented investments, and leveraged capital, for shorter-term, structured investments. With offices in Vancouver and Toronto, we are one of few Canadian private equity groups focusing on medium-sized enterprises across the country.

In 2002, we made a number of improvements in services to our commercial customers, details of which are set out in our review of operations above.

Selected Financial Information and Analysis. The following sets out consolidated financial information and other data for CFS:

	As at December 31	
	2002	2001
	(in millions)	
Net interest income	**$ 359**	$ 358
Provision for credit losses	**(48)**	(68)
Other income	**134**	115
Non-interest expenses	**(219)**	(234)
Income before the under noted:	**226**	171
Provision for income taxes	**(84)**	(66)
Non-controlling interest in income of trust	**(8)**	(8)
Net income	**$ 134**	$ 97
Average assets	**$ 13,036**	$ 12,413

CFS increased profitability in 2002 contributing $134 million (46.0%) to total net income for the year ended December 31, 2002, before unallocated corporate expenses. With $13.0 billion in average assets, CFS represented 37.4% of total average assets for 2002.

Income before tax for CFS increased 32.2% in 2002 to $226 million. Net interest income in 2002 benefited only marginally from lower funding rates, which moved broadly in line with changes in prime rates upon which the majority of our commercial loan interest revenue is based. In addition, some customers were transferred from our wholesale banking sector. The provision for credit losses decreased from 2001, which included a small number of impaired credit facilities in the telecommunications sector. Other income rose 16.5%, primarily from increased activity in guarantees, letters of credit and bankers acceptances where revenues increased 13.2% and International Trade Finance activities where revenues were 12.5% ahead of 2001. We also benefited from higher fees generated in our merchant banking business. Non-interest expenses were lower in 2002 mainly as a result of continued cost containment measures.

Wholesale Banking

Client Base. Wholesale Banking provides a comprehensive range of financial services to an international group of HSBC's large multinational clients. HSBC's focus is on entities that have a need for international value added products through investment banking, structured lending and trade services by offering the following: corporate banking; asset management; investment banking; treasury; and trade finance.

Products and Services. Wholesale Banking provides the following products and services:

Corporate Banking	*Asset Management*	*Investment Banking*	*Treasury*	*Trade Finance*
Lines of credit	Portfolio and fund management	Corporate finance	Foreign exchange	Import and export finance
Term financing	Group RRSP	Mergers and acquisitions	Deposits	
Deposits		Advisory	Fixed income	
Payments and cash management			Derivatives	
Leasing				

Delivery Channels. HSBC provides Wholesale Banking services through its principal branches and subsidiary offices, coordinated with HSBC Group worldwide operations. The HSBC Group's proprietary worldwide payments and cash management platform, Hexagon, is linked electronically to HSBC Group offices around the world.

Wholesale Banking customers deal with the HSBC Group worldwide through a relationship manager. HSBC provides relationship management coverage to Canadian-based multinational clients and delivers services to other multinational clients of the HSBC Group. Our ability to leverage the HSBC Group's worldwide network in providing comprehensive corporate and investment banking services to sophisticated multinational clients is a significant competitive advantage.

Management's Discussion and Analysis (continued)

Following HSBC Securities withdrawal from institutional equities, trading and research we realigned our corporate finance services to focus on M&A advisory services and origination of new equity issues for distribution to our private client network. We have been pleased with the progress made in this area since the restructuring. We remain active in the institutional fixed income market.

As a result of the North American Alignment, there is extensive cooperation with HBUS on a number of cross-border financings. The opening of HBUS Toronto Branch has enabled the HSBC Group to participate in an increased number of opportunities to service the needs of larger corporate clients. The expanded product capabilities offered by HBUS Toronto is significantly improving the proportion of cross-sell benefit being realized.

Selected Financial Information and Analysis. The following sets out consolidated financial information and other data for Wholesale Banking:

	Year ended December 31	
	2002	2001
	(in millions)	
Net interest income	**$ 23**	$ 33
Provision for credit losses	**(70)**	(4)
Other income	**61**	74
Non-interest expenses	**(62)**	(51)
Income before the under noted:	**(48)**	52
Provision for income taxes	**19**	(20)
Non-controlling interest in income of trust	**(2)**	(2)
Net income	**$ (31)**	$ 30
Average assets	**$ 2,707**	$ 2,719

Wholesale Banking recorded a loss of $31 million, before unallocated corporate expenses compared to income of $30 million for 2001. With $2.7 billion in average assets, Wholesale Banking represented 7.8% of total average assets for 2002.

Net interest income was lower than 2001 as a number of customers transferred to our CFS Sector. The restructuring of the institutional business negatively impacted net interest income and other income. However, in the last quarter of 2002, other income benefited from a one-time gain of $17 million realized on the sale of shares arising from our holdings of seats on the Toronto Stock Exchange, which went public during 2002. Included in non-interest expenses was an amount of $30 million relating to a one time restructuring charge. In addition, we also set aside amounts to cover rationalization of excess office space in Toronto. The provision for credit losses was higher compared to 2001 to reflect an exposure in the telecommunications sector. 2002 proved a highly volatile credit environment. The intermediate term credit environment remains uncertain, thus a cautious posture is appropriate and overall growth in the portfolio is being carefully managed.

Treasury and Markets

The three principal activities of Treasury and Markets are client sales, service and distribution, balance sheet management and proprietary trading.

Client Base. The HSBC Group's worldwide treasury and capital markets capabilities are used to enhance the opportunities to serve its clients. The HSBC Group's presence in these markets ranks among the largest in the world, serving governments, supra-nationals, multinational and domestic corporations and institutional and private investors.

Products and Services. Treasury and Markets provides the following products and services:

Client sales, service and distribution	*Balance Sheet Management*	*Proprietary Trading*
Foreign exchange	Foreign exchange hedging	Foreign exchange
Derivatives	Interest rate hedging	Fixed income sales and trading
Bankers' acceptances	Funding	Derivatives
Treasury bills	Investment/money market	Client facilitation
Commercial paper	Liquidity management	
Medium term notes		
Fixed income sales and trading		

Delivery Channels. The Domestic market is serviced through treasury operations in Toronto, Vancouver, Montreal and Calgary. Basic treasury products are also delivered through branches and through the HSBC Group's proprietary worldwide payments and cash management platform, Hexagon. During 2002 we adopted a North American approach to sales and distribution of treasury and securities products to our clients. We continued to focus on foreign exchange, fixed income and derivatives, including enhancing our expertise in these product lines. In addition, the Toronto branch of HBUS has enabled us to participate in servicing larger client needs, particularly in foreign exchange and interest rate derivatives.

Selected Financial Information and Analysis. The following sets out selected consolidated financial information and other data for Treasury and Markets:

	Year ended December 31	
	2002	2001
	(in millions)	
Net interest income	**$ 42**	$ 37
Other income	**42**	48
Non-interest expenses	**(32)**	(33)
Net income before the under noted:	**52**	52
Provision for income taxes	**(20)**	(21)
Non-controlling interest in income of trust	**(1)**	(1)
Net income	**$ 31**	$ 30
Average assets	**$ 7,327**	$ 6,734

Treasury and Markets contributed $31 million (10.7%) to total net income for the year ended December 31, 2002, before unallocated corporate expenses. With $7.3 billion in average assets, Treasury and Markets represented 21.0% of total average assets for 2002.

Net interest income in 2002 benefited from lower funding costs. Other income in 2002 was lower than 2001 due to lower trading revenue as a result of the weak equity markets and the decision to withdraw from certain of our proprietary trading businesses earlier in the year. However our customer driven volumes are at record levels and our fixed income proprietary trading also did very well despite contracting margins. Our Debt Capital Markets group also did well taking a number of Canadian issuers to foreign markets leveraging the HSBC Group's international presence. Non-interest expenses were lower in 2002 compared with 2001 due to lower performance based compensation and from cost containment measures.

Statement of Management's Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements of HSBC Bank Canada have been prepared by, and are the responsibility of, the Bank's management. The presentation and information provided therein have been prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada ("the Superintendent"). The financial statements necessarily include amounts based on informed judgements and estimates of the expected effects of current events and transactions with appropriate consideration to materiality.

In meeting its responsibility for the reliability of financial information, management relies on comprehensive internal accounting, operating and system controls. The Bank's overall controls include an organizational structure providing for effective segregation of responsibilities, delegation of authority and personal accountability; written communication of policies and procedures of corporate conduct throughout the Bank and careful selection and training of personnel; the regular updating and application of written accounting and administrative policies and procedures necessary to ensure adequate internal control over transactions, assets and records; as well as a continued program of extensive internal audit covering all aspects of the Bank's operations. These controls are designed to provide reasonable assurance that financial records are reliable for preparing financial statements and maintaining accountability for assets, that assets are safeguarded against unauthorized use or disposition and that the Bank is in compliance with all regulatory requirements including compliance with the Canada Deposit Insurance Corporation ("CDIC") Standards of Sound Business & Financial Practices. Annually, Management is required to provide a representation letter to CDIC and the Bank's Board of Directors ("The Board") stating that the Bank is being managed in accordance with the CDIC standards.

The Superintendent, at least once a year, makes such examination and enquiry into the affairs of the Bank as he feels necessary to satisfy himself that the provisions of the Bank Act, having reference to the safety of the deposits and the Parent of the Bank, are being duly observed and that the Bank is in a sound financial position.

The Board of Directors oversees management's responsibilities for financial statements through the Audit Committee, which is composed solely of directors who are not officers or employees of the Bank. The Audit Committee meets four times per year as a minimum. Each year it reviews the adequacy of internal controls and discusses with the internal and external auditors the overall scope, timing and specific plans for their respective audits. The Audit Committee reviews with management and the Shareholders' auditors the content and format of the Bank's financial statements. As part of this process it reviews the adoption of and changes in accounting principles and practices that have a material effect on the Bank's financial statements and key management estimates and judgements material to those statements. The Audit Committee also considers, for review by the Board and approval by the Parent, the engagement or re-appointment of the Shareholders' auditors. Annually the Board is required to pass a resolution which indicates that the Board is fulfilling its responsibilities under the CDIC standards and that in the Board's opinion the Bank is following these standards.

The Shareholders' auditors, the Bank's Vice-President and Chief Auditor and the Superintendent have full and free access to the Audit Committee to discuss audit, financial reporting and related matters.

Martin J. G. Glynn
President and Chief Executive Officer

R. K. McGregor
Chief Financial Officer

January 17, 2003
Vancouver, Canada

Auditors' Report

To the Shareholders of HSBC Bank Canada

We have audited the consolidated balance sheets of HSBC Bank Canada as at December 31, 2002 and 2001 and the consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

The consolidated financial statements for the year ended December 31, 2001 were audited by KPMG LLP and Ernst & Young LLP who expressed an opinion thereon without reservation in their report dated January 21, 2002.

KPMG LLP

KPMG LLP
Chartered Accountants

January 17, 2003
Vancouver, Canada

Consolidated Balance Sheets

As at December 31 *(in millions of dollars)*

	2002	2001
Assets		
Cash resources:		
Cash and deposits with Bank of Canada	**$ 417**	$ 466
Deposits with regulated financial institutions	**3,317**	3,261
	3,734	3,727
Securities: (note 2)		
Investment	**2,875**	2,474
Trading	**870**	1,153
	3,745	3,627
Securities purchased under reverse repurchase agreements	**416**	428
Loans: (notes 3 & 4)		
Businesses and government	**11,949**	11,575
Residential mortgage	**9,809**	8,377
Consumer	**2,422**	2,233
Allowance for credit losses	**(311)**	(315)
	23,869	21,870
Other:		
Customers' liability under acceptances	**2,374**	2,571
Land, buildings and equipment (note 5)	**111**	124
Other assets (note 6)	**940**	913
	3,425	3,608
	$ 35,189	$ 33,260

See notes to consolidated financial statements

	2002	2001
Liabilities and Shareholders' Equity		
Deposits: (note 7)		
Regulated financial institutions	$ 758	$ 1,747
Individuals	14,432	13,390
Businesses and governments	13,182	11,570
	28,372	26,707
Other:		
Acceptances	2,374	2,571
Securities sold under repurchase agreements	28	7
Other liabilities (note 8)	1,984	1,686
Non-controlling interest in trust and subsidiary (note 9)	230	230
	4,616	4,494
Subordinated debentures (note 10)	528	447
Shareholders' equity:		
Capital stock (note 11)		
Preferred	125	125
Common	950	935
Contributed surplus	165	165
Retained earnings	433	387
	1,673	1,612
	$ 35,189	$ 33,260

Approved by the Board:

Sir John Bond
Chairman of the Board

Martin J. G. Glynn
President and Chief Executive Officer

Consolidated Statements of Income

For the years ended December 31 *(in millions of dollars except per share amounts)*

	2002	2001
Interest and dividend income:		
Loans	**$ 1,270**	$ 1,448
Securities	**110**	153
Deposits with regulated financial institutions	**75**	123
Total interest and dividend income	**1,455**	1,724
Interest expense:		
Deposits	**564**	938
Debentures	**35**	32
Total interest expense	**599**	970
Net interest income	**856**	754
Provision for credit losses (note 4)	**127**	92
Net interest income after provision for credit losses	**729**	662
Other income:		
Deposit and payment service fees	**75**	67
Credit fees	**60**	53
Capital market fees	**69**	92
Mutual fund and administration fees	**58**	57
Foreign exchange	**53**	49
Trade finance	**27**	24
Trading revenue	**14**	13
Securitization income	**19**	15
Other	**66**	49
	441	419
Net interest and other income	**1,170**	1,081
Non-interest expenses:		
Salaries and employee benefits	**339**	359
Premises and equipment, including amortization	**107**	115
Other	**254**	230
Restructuring	**30**	–
Total non-interest expenses	**730**	704
Income before provision for income taxes and non-controlling interest in income of trust	**440**	377
Provision for income taxes (note 14)	**164**	147
Non-controlling interest in income of trust	**16**	16
Net income	**$ 260**	$ 214
Preferred share dividends	**8**	8
Net income applicable to common shares	**$ 252**	$ 206
Average number of common shares outstanding (000's)	**458,675**	456,168
Basic earnings per common share	**$ 0.55**	$ 0.45

See notes to consolidated financial statement

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31 *(in millions of dollars)*

	2002	2001
Preferred shares: (note 11)		
Balance at beginning and end of year	$ 125	$ 125
Common shares: (note 11)		
Balance at beginning of year	935	935
Issued	15	–
Balance at end of year	950	935
Contributed surplus:		
Balance at beginning and end of year	165	165
Retained earnings:		
Balance at beginning of year	387	181
Effect of accounting changes (note 24)	13	–
As restated	400	181
Net income	260	214
Acquisition of subsidiary (note 22)	(19)	–
Preferred share dividends	(8)	(8)
Common share dividends	(200)	–
Balance at end of year	433	387
Total shareholders' equity	$ 1,673	$ 1,612

See notes to consolidated financial statements

Consolidated Statements of Cash Flows

For the years ended December 31 *(in millions of dollars)*

	2002	2001
Cash flows provided by (used in) operating activities:		
Net income	$ 260	$ 214
Adjustments to net income to determine net cash provided by (used in) operating activities:		
Amortization	33	43
Provision for credit losses (note 4)	127	92
Future income taxes (note 14)	(15)	(7)
Net accrued interest receivable and payable	(51)	(6)
Trading securities	407	(198)
Other, net	227	(104)
	988	34
Cash flows provided by (used in) financing activities:		
Deposits	2,056	3,196
Securities sold under repurchase agreements	21	(8)
Proceeds from debentures issued	100	–
Subordinated debenture redemptions and repayments	(71)	–
Dividends paid	(208)	(8)
	1,898	3,180
Cash flows provided by (used in) investing activities:		
Loans, excluding securitizations	(2,968)	(2,273)
Proceeds from loans securitized	464	100
Investment securities	(401)	372
Securities purchased under reverse repurchase agreements	12	8
Non-operating deposits with regulated financial institutions	492	(555)
Business acquired (note 22):	–	(64)
Less cash and cash equivalents at date of acquisition	48	39
Proceeds from sale of net assets (note 23):	22	–
Less cash and cash equivalents at date of sale	(47)	–
Land, buildings and equipment	(9)	(41)
	(2,387)	(2,414)
Increase in cash and cash equivalents	499	800
Cash and cash equivalents, beginning of year	3,138	2,338
Cash and cash equivalents, end of year	$ 3,637	$ 3,138
Represented by:		
Cash resources per consolidated balance sheet	$ 3,734	$ 3,727
Less non-operating deposits with regulated financial institutions[1]	(97)	(589)
Cash and cash equivalents, end of year	$ 3,637	$ 3,138
Cash disbursements made for:		
Interest	$ 655	$ 1,031
Income taxes	$ 179	$ 191

(1) *Non-operating deposits are comprised primarily of cash which reprices after 90 days and cash restricted for recourse on securitization transactions.*

See notes to consolidated financial statements

Notes to Consolidated Financial Statements

December 31, 2002 and 2001 *(all tabular amounts are in millions of dollars unless stated otherwise)*

HSBC Bank Canada (the Bank) is a subsidiary of HSBC Holdings plc (the Parent). In these consolidated financial statements, Group means the Parent and its subsidiary companies.

1 Accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP), including the accounting requirements of the Superintendent of Financial Institutions Canada (the Superintendent). Certain prior period amounts have been reclassified to conform with the current year presentation. The significant accounting policies used in the preparation of these financial statements are summarized below.

a *Basis of consolidation*

The assets and liabilities and results of operations of the Bank and its subsidiaries are reported in the financial statements on a consolidated basis. All material intercompany transactions have been eliminated.

b *Use of estimates in preparation of consolidated financial statements*

The preparation of the consolidated financial statements of the Bank requires management to make estimates and assumptions based on information available as of the date of the financial statements. Therefore, actual results could differ from those estimates.

c *Deposits with regulated financial institutions*

Deposits with regulated financial institutions are recorded at cost. Interest income on interest earning deposits is recorded on an accrual basis.

d *Securities*

Investment account securities, where the Bank's intention is to hold the securities to maturity or until market conditions render alternative investments more attractive, are carried at cost or amortized cost. If the securities held for investment account experience a decline in value that is other than temporary, the carrying value is appropriately reduced. The amortization of premiums and discounts and adjustments to the carrying value of debt securities are included in interest income. Gains and losses on the disposal of securities are included in other income.

Trading account securities, which are purchased for resale over a short period of time, are carried at market value. Gains and losses on disposal or revaluation are included in other income.

Loan substitute securities are customer financings structured as after-tax investments to provide the borrower with an interest rate advantage over what would otherwise be applicable on a conventional loan. Such securities are accorded the accounting treatment applicable to loans.

e *Loans*

Loans are stated net of any unearned income, unamortized premiums or discounts and an appropriate allowance for credit losses.

Interest income is recorded on the accrual basis unless the loan is classified as an impaired loan. Loans are considered to be impaired whenever there is no longer reasonable assurance as to the ultimate collectibility of some portion of principal or interest. Loans where interest is due and has not been collected for a period of 90 days are automatically recognized as impaired, unless management determines there is no reasonable doubt as to the ultimate collectibility of principal and interest. Loans where interest is due and has not been collected for a period of 180 days are automatically classified as impaired.

Impaired loans are recorded at their estimated realizable amounts. This is determined by discounting the expected future cash flows at the effective interest rate inherent in the loans. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, they are measured at the fair value of any security underlying the loans, net of expected costs of realization. When a loan is classified as impaired, recognition of interest in accordance with the terms of the original loan agreement ceases. Subsequent payments (interest or principal) received on an impaired loan are recorded as a reduction of the recorded investment in the loan. Interest income is recognized only when all allowances for credit losses have been reversed.

Fees associated with lending activities are deferred and amortized over the term of the loans, and are included in income from loans in the consolidated statement of income.

Notes to Consolidated Financial Statements (continued)

1 Accounting policies *(continued)*

f *Direct finance leases*

Direct finance leases are included in commercial and other loans in the balance sheets. Initial direct costs of direct finance leases are expensed as incurred. The investment in the lease is defined as the minimum lease payments receivable, including the purchase option price, less unearned income.

g *Allowance for credit losses*

The Bank maintains an allowance for credit losses which is considered adequate to absorb all estimated credit related losses in its portfolio of both on and off-balance sheet items, including deposits with other regulated financial institutions, loan substitute securities, loans, acceptances, derivative instruments and other credit-related contingent liabilities, such as letters of credit and guarantees.

Assessing the adequacy of the allowance for credit losses is inherently subjective as it requires making estimates, including the amount and timing of expected future cash flows, that may be susceptible to significant change.

Specific allowances are recorded on a loan-by-loan basis, for those loans where management believes the ultimate collectibility of all or some portion of principal or interest is in doubt, to reduce the carrying value of an impaired asset to its estimated net realizable amount. The level of specific allowances are determined on an individual asset basis for all commercial loans and some personal loans while a formula approach is utilized for personal loans with similar characteristics. The determination of specific allowances is the responsibility of a dedicated unit that is independent of both the credit approval and credit line functions.

A number of methods are used in determining specific allowances including discounted value of future cash flows, observable market values or the fair values of the underlying security.

General allowances are allowances for losses which management estimates have occurred at the balance sheet date in the portfolio relating to loans within portfolios which give rise to credit risk but are not yet identified as non-performing loans and requiring specific provisions. In determining an appropriate level of general allowances, the Bank has adopted a methodology that incorporates the loan loss history as the basis for determining probability of default and loss given default rates for various credit portfolios that exhibit similar loan loss characteristics. These historic rates are further refined to allow for the stage of the credit cycle and the inherent difficulties in determining whether data collection captures a complete economic cycle. These loss ratios can then be applied to outstanding credit exposures to determine an appropriate level of allowance. Some credit portfolios do not readily lend themselves to this approach and therefore management have estimated an allowance level for these portfolios based on externally published default data or other underlying assumptions made as to the loan loss characteristics of these portfolios.

The provision for credit losses is charged to the consolidated statement of income and comprises the amounts written off during the year, net of recoveries on amounts written off in prior years, and changes in provisions.

h *Securities purchased and sold under repurchase agreements*

Where securities are sold subject to a commitment to repurchase them at a predetermined price, they remain on the balance sheet and a liability is recorded in respect of the consideration received.

Conversely, securities purchased under analogous commitments to resell are not recognized on the balance sheet and the consideration paid is recorded as a loan.

i *Land, buildings and equipment*

Land is carried at cost. Buildings, leasehold improvements and equipment are carried at cost, less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful life of the related asset as follows: buildings – 20 to 40 years, equipment – 3 to 5 years, and leasehold improvements – 10 to 15 years.

j *Goodwill and other intangible assets*

Effective January 1, 2002 the Bank adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3062 "Goodwill and Other Intangible Assets" (note 24). Under this new standard, goodwill and intangible assets having indefinite lives are no longer amortized but are subject to an annual impairment test to identify any potential impairment. An initial impairment review is required within six months of adoption. If any potential impairment is indicated, then it should be quantified based upon the fair value of the assets and liabilities of the reporting unit.

1 Accounting policies *(continued)*

j *Goodwill and other intangible assets (continued)*

Goodwill represents the excess price paid for the acquisition of subsidiaries over the fair value of the net assets acquired and is recorded in other assets. Identifiable, reliably measured other intangible assets resulting from acquisition of subsidiaries are also recorded in other assets. Intangible assets with definite lives are amortized over the estimated period of benefit, not exceeding 15 years, except where a writedown is required to reflect impairment that is other than temporary.

k *Acceptances*

The Bank's potential liability under acceptances is reported as a liability in the consolidated Balance Sheets. The Bank has equal and offsetting claims against its customers in the event of a call on these commitments, which are reported as an asset. Fees earned are reported in other income.

l *Income taxes*

The Bank follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and future income tax liabilities are determined based on temporary differences (differences between the tax basis and accounting basis of assets and liabilities) and are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability is settled. A valuation allowance is recorded against any future tax asset if it is more likely than not that the asset will not be realized. Income tax expense or benefit is the sum of the provision for current income taxes and the difference between the opening and ending balances of the future income tax assets and liabilities.

m *Employee future benefits*

The Bank sponsors a number of pension plans covering substantially all employees. With one exception, these arrangements are defined benefit pension plans that provide a pension at retirement based on years of service with the Bank and average earnings prior to retirement. In addition, the Bank sponsors post-retirement non-pension arrangements that provide extended health, dental, life insurance and other benefits in retirement.

The costs of employee future benefits for defined benefits plans are determined using the projected unit credit method pro rata on service and using management's best estimate of expected investment performance, salary escalation and expected health care costs.

For purposes of determining the expected return on pension plan assets, those assets are valued at their fair market value.

The excess of net actuarial gains or losses over 10% of the greater of the accrued benefit obligation and the fair market value of plan assets is amortized over the average remaining service lifetimes of active employees covered under the plan in question. The weighted-average remaining service lifetime of the active employees under the pension plans is 15 years. The average remaining service period under the post-retirement non-pension arrangements is 20 years.

For the purposes of determining the financial position and the costs of employee future benefits, a measurement date of September 30 has been adopted.

n *Translation of foreign currencies*

Assets and liabilities in foreign currencies are translated into Canadian dollars at year-end spot exchange rates. Revenues and expenses in foreign currencies are translated into Canadian dollars at the rates in effect at the transaction date. Premiums and discounts on foreign currency forward contracts that hedge foreign currency assets and liabilities are amortized over the period to maturity as interest expense in the consolidated statement of income. Realized and unrealized gains and losses from foreign currency translation are included in other income in the Consolidated Statements of Income.

o *Derivative instruments*

The Bank enters into interest rate, foreign exchange and equity derivative contracts in the normal course of business.

Trading derivatives are undertaken for proprietary trading, market making and to assist customers in managing their exposures. Trading derivatives are marked to market on a daily basis and the resulting gains and losses are recorded in other income. The unrealized portion of the gains and losses on trading derivatives is recorded in other assets or other liabilities as appropriate.

Notes to Consolidated Financial Statements (continued)

1 Accounting policies *(continued)*

o *Derivative instruments (continued)*

Asset/liability management ("ALM") derivatives are used to manage financial risks in the banking book such as movements in interest rates and foreign currency exchange rates. These derivatives are used to transfer these financial risks or to modify assets or liabilities or groups of similar on-balance sheet assets or liabilities. These contracts are accounted for on an accrual basis whereby the income or expense is recognized over the term of the agreement as an adjustment to interest revenue or expense. Accrued interest receivable and payable, and deferred gains and losses are recorded in other assets or other liabilities as appropriate.

p *Trust assets under administration*

Trust assets under administration are maintained separately from the Bank's assets and are not included in the consolidated balance sheets.

q *Loan securitizations*

The Bank periodically sells groups of loans to unrelated third parties. Transfers of loans occurring after June 30, 2001 are treated as sales provided that control over the transferred loans has been surrendered and consideration other than beneficial interests in the transferred loans has been received in exchange. If treated as sales, the loans are removed from the balance sheet and a gain or loss is recorded in other income based on the carrying value of the loans transferred, allocated between the assets sold and their retained interests in proportion to their fair values at the date of transfer.

The fair values of loans sold, retained interests and recourse liabilities are determined using market values where appropriate or pricing models taking into account management's best estimates of key assumptions such as expected losses, prepayments and discount rates commensurate with the risks involved, or sales of similar assets. Where the Bank continues to service the loans sold, a servicing liability or asset is recognized and amortized over the servicing period as servicing income.

For loans transferred prior to July 1, 2001 or transfers arising from commitments made prior to that date, transactions which transfer the risks and rewards of ownership and where there is reasonable assurance regarding the measurement of the consideration, are treated as sales and the loans are removed from the balance sheet. Gains on such transactions are deferred and included in other income when there is no recourse to the net proceeds. Losses are recognized in other income at the date of the sale.

Revenue earned by the Bank in respect of servicing the assets sold is reflected in other income as services are provided.

r *Stock-based compensation and other stock-based payments*

Effective January 1, 2002 the Bank adopted the new CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments" (note 24). The adoption of this standard did not have any impact on retained earnings. Under this new standard, certain stock-based compensation arrangements are accounted for under a fair value based method. There are exemptions available under the new standard for certain stock-based compensation plans where options granted by the Bank to employees are not required to be accounted for using a fair value based method. The Bank has applied these exemptions to the relevant share compensation schemes as there are neither direct grants of stock or awards that call for the settlement in cash, other assets or net equity. Where fair value accounting has not been used to account for employee stock arrangements, the Bank has elected to continue to apply the settlement method and under the new recommendation discloses pro-forma net income and earnings per share as if the fair value method had been applied for awards granted on or after January 1, 2002. Disclosures setting forth details of the share compensation schemes and pro-forma information are detailed in note 12.

Under the settlement method, no compensation expense is recorded when the stock options are granted to employees.

s *Future accounting changes*

Hedging

The CICA has issued an accounting guideline for hedging relationships that will become effective for fiscal year 2004. This guideline establishes certain requirements for the application of hedge accounting. Subsequent to January 1, 2004 changes in the fair value of derivatives that do not qualify for hedge accounting will be recorded in the Consolidated Statements of Income. The impact of implementing this guideline on the Bank's future results will depend on the Bank's hedging strategies and market volatility.

1 Accounting policies *(continued)*

s *Future accounting changes (continued)*

Accounting for impairment or disposal of long-lived assets

The CICA has issued new accounting standards for impairment and disposal of non-monetary long-lived assets. These standards require an impairment loss to be recognized when the carrying amount of long-lived asset to be held and used exceeds the sum of the undiscounted cash flows expected from its use and disposal. The impairment recognized should be measured as the amount by which the carrying amount of the asset exceeds its fair value. Long-lived assets that are to be disposed of other than by sale should be classified and accounted for as held-for-use until the date of disposal or abandonment. Assets that meet certain criteria are classified as held-for-sale and are measured at the lower of their carrying amounts or fair value, less costs to sell. These requirements are not expected to have a material impact on the Bank.

In addition, under these standards, the definition of discontinued operations has been broadened to include any disposals of a component of an entity, which comprises operations and cash flows that can be clearly distinguished. This may change the accounting presentation of future discontinued operations.

The standards are effective for the Bank for fiscal 2003.

Disclosure of guarantees

The CICA has issued a draft guideline on disclosure of guarantees, which broadens the definition of guarantees and requires substantially expanded disclosure about those guarantees. This accounting guidance is not expected to have a material impact on the Bank's financial position or results of operations. It is anticipated that this guidance will be finalized and become effective during 2003.

Consolidation of special-purpose entities

The CICA has issued an exposure draft requiring the consolidation of certain special-purpose entities (SPEs). For SPEs that do not meet specified exemption criteria, consolidation is required based upon either voting rights or a determination of the identity of the primary beneficiary. The impact of this accounting guidance on the Bank has not yet been determined as the exposure draft is still under development. It is anticipated that this guidance will be finalized and become effective during 2003.

2 Securities

a *Carrying value*

	2002				
	Term to maturity				
	Within 1 year	*1-5 years*	*5-10 years*	*No specific maturity*	*Total carrying value*
Investment securities:					
Securities issued or guaranteed by:					
Canada	$ 1,982	$ 503	$ –	$ –	$ 2,485
Provinces	282	11	13	–	306
	2,264	514	13	–	2,791
Others	2	7	2	–	11
Mutual funds	–	–	–	24	24
Equity securities	9	6	9	5	29
Total investment securities	2,275	527	24	29	2,855
Loan substitute securities	20	–	–	–	20
Trading securities	524	19	47	280	870
Total securities	$ 2,819	$ 546	$ 71	$ 309	$ 3,745

Notes to Consolidated Financial Statements (continued)

2 Securities *(continued)*

	2001				
	Term to maturity				*Total*
	Within 1 year	*1-5 years*	*5-10 years*	*No specific maturity*	*carrying value*
Investment securities:					
Securities issued or guaranteed by:					
Canada	$ 1,343	$ 637	$ 25	$ –	$ 2,005
Provinces	117	171	11	–	299
	1,460	808	36	–	2,304
Others	7	6	4	–	17
Mutual funds	–	–	–	27	27
Equity securities	14	11	6	5	36
Total investment securities	1,481	825	46	32	2,384
Loan substitute securities	40	50	–	–	90
Trading securities	664	55	85	349	1,153
Total securities	$ 2,185	$ 930	$ 131	$ 381	$ 3,627

Included in trading securities are $414 million of securities issued or guaranteed by Canada or Provinces (2001 - $700 million).

The total carrying value of securities includes amounts denominated in U.S. dollars of $561 million (Canadian equivalent) (2001 - $635 million).

b *Unrealized gains and losses on investment securities*

	2002			
	Carrying value	*Gross unrealized gains*	*Gross unrealized losses*	*Estimated market value*
Securities issued or guaranteed by:				
Canada	**$ 2,485**	**$ 23**	**$ –**	**$ 2,508**
Provinces	**306**	**1**	**–**	**307**
	2,791	**24**	**–**	**2,815**
Others	**11**	**–**	**–**	**11**
Mutual funds	**24**	**8**	**(1)**	**31**
Equity securities	**29**	**–**	**(1)**	**28**
Total investment securities	**$ 2,855**	**$ 32**	**$ (2)**	**$ 2,885**

	2001			
	Carrying value	*Gross unrealized gains*	*Gross unrealized losses*	*Estimated market value*
Securities issued or guaranteed by:				
Canada	$ 2,005	$ 32	$ –	$ 2,037
Provinces	299	4	–	303
	2,304	36	–	2,340
Others	17	–	–	17
Mutual funds	27	–	(4)	23
Equity securities	36	–	(1)	35
Total investment securities	$ 2,384	$ 36	$ (5)	$ 2,415

3 Loans

a The Bank's loans outstanding, net of the allowance for credit losses, are as follows:

		2002		2001
Businesses and government:				
Real estate	$	**3,687**	$	3,504
Hotels and hospitality		**675**		761
Manufacturing		**1,667**		1,783
Trade		**2,949**		2,922
Services		**1,723**		1,630
Direct finance leases		**606**		521
Other		**642**		454
Total businesses and government		**11,949**		11,575
Residential mortgages		**9,809**		8,377
Consumer		**2,422**		2,233
Allowance for credit losses		**(311)**		(315)
Total	$	**23,869**	$	21,870

Total net loans includes amounts denominated in U.S. dollars of $1,231 million (Canadian equivalent) (2001 - $1,707 million) and other foreign currencies of $133 million (Canadian equivalent) (2001 - $187 million). Included in residential mortgages are $972 million of NHA insured mortgages (2001 - $911 million).

b The outstanding securitized loans sold to unrelated third parties and removed from the balance sheet are as follows:

		2002		2001
Residential mortgages				
Conventional	$	**182**	$	390
Mortgage-backed securities		**511**		530
Consumer loans		**428**		496
	$	**1,121**	$	1,416

During the year the Bank securitized residential mortgages of $268 million (2001 - $100 million), recognized servicing liabilities of $2 million (2001 - $1 million) and recorded net gains of $3 million (2001 - $2 million). As the mortgages are government-guaranteed, credit losses are not expected.

The Bank's retained interests in the mortgages, which consist of rights to future cash flows, had a fair value of $7 million at the time of sale (2001 - $4 million). The weighted average key assumptions used to measure the fair value at the time of sale were a prepayment rate of 14.4%, an excess spread of 1.2% and a discount rate of 5.8% (2001 - 14.4%, 1.4% and 6.3%, respectively). As at December 31, 2002, the fair value of retained interests in mortgages securitized after June 2001 was $7 million, with a weighted average life of five years.

The Bank securitized fixed rate term loans of $200 million (2001 - nil), recognized a servicing liability of $1 million and recorded a net gain of $9 million.

The Bank's retained interest in the loans, which consist of rights to future cash flows, had a fair value of $10 million at the time of sale. The key assumptions used to measure fair value at the time of sale were a prepayment rate of 4.5%, an excess spread of 4.0% and a discount rate of 4.0%. As at December 31, 2002, the fair value of retained interests in loans securitized after June 2001 was $3 million, with a weighted average life of one year.

Servicing fee income from securitized assets was $2 million during the year (2001 - $2 million). Delinquent securitized mortgages were repurchased by the Bank at book value of $2 million during the year (2001 - $1 million) and credit losses of $1 million were realized on securitized consumer loans (2001 - $1 million).

The Bank is subject to limited recourse for potential credit losses and potential shortfall of yield on certain of the securitized assets. At December 31, 2002, total recourse against the Bank under securitization transactions was $14 million (2001 - $23 million).

Notes to Consolidated Financial Statements (continued)

4 Impaired loans and allowance for credit losses

a The Bank's total gross impaired loans and the related specific allowances are as follows:

	2002			2001		
	Gross amount	*Specific allowances*	*Carrying amount*	*Gross amount*	*Specific allowances*	*Carrying amount*
Business and government						
Real estate	**$ 53**	**$ 11**	**$ 42**	$ 82	$ 10	$ 72
Manufacturing	**38**	**17**	**21**	34	10	24
Trade	**26**	**12**	**14**	38	15	23
Services	**8**	**5**	**3**	12	6	6
Other	**59**	**26**	**33**	79	28	51
Consumer	**16**	**8**	**8**	13	10	3
Residential mortgages	**25**	**1**	**24**	24	1	23
Total	**$ 225**	**$ 80**	**$ 145**	$ 282	$ 80	$ 202

b The Bank's allowance for credit losses is as follows:

	2002				
	Balance at beginning of the year	*Provision for credit losses*	*Write-offs*	*Recoveries and other*	*Balance at end of the year*
Specific allowances:					
Business and government:					
Real estate	**$ 10**	**$ 4**	**$ (2)**	**$ (1)**	**$ 11**
Manufacturing	**10**	**22**	**(16)**	**1**	**17**
Trade	**15**	**3**	**(4)**	**(2)**	**12**
Services	**6**	**1**	**(1)**	**(1)**	**5**
Other	**28**	**95**	**(101)**	**4**	**26**
Consumer	**10**	**8**	**(10)**	**–**	**8**
Residential mortgages	**1**	**2**	**(2)**	**–**	**1**
Total specific allowances	**80**	**135**	**(136)**	**1**	**80**
General allowance	**235**	**(8)**	**–**	**4**	**231**
Total	**$ 315**	**$ 127**	**$ (136)**	**$ 5**	**$ 311**

	2001				
	Balance at beginning of the year	*Provision for credit losses*	*Write-offs*	*Recoveries and other*	*Balance at end of the year*
Specific allowances:					
Business and government:					
Real estate	$ 14	$ 1	$ (5)	$ –	$ 10
Manufacturing	8	10	(8)	–	10
Trade	11	8	(6)	2	15
Services	7	3	(4)	–	6
Other	1	51	(32)	8	28
Consumer	9	9	(8)	–	10
Residential mortgages	1	2	(2)	–	1
Total specific allowances	51	84	(65)	10	80
General allowance	234	8	–	(7)	235
Total	$ 285	$ 92	$ (65)	$ 3	$ 315

5 Land, buildings and equipment

	Cost	Accumulated amortization	Net book value 2002	Net book value 2001
Land and buildings	$ 24	$ 4	**$ 20**	$ 21
Furniture and equipment	122	89	**33**	34
Computer equipment	38	28	**10**	25
Leasehold improvements	100	52	**48**	44
Total	$ 284	$ 173	**$ 111**	$ 124

Amortization charged to income for the year ended December 31, 2002 amounted to $27 million (2001 - $35 million).

6 Other assets

	2002	2001
Accrued interest receivable	**$ 85**	$ 90
Interest earning other assets	**139**	110
Due from clients, dealers and clearing corporations	**156**	141
Market revaluation of trading derivatives (note 19)	**218**	218
Future income taxes, net (note 14)	**116**	98
Goodwill and other intangible assets, net	**46**	43
Accounts receivable and other	**180**	213
Total	**$ 940**	$ 913

7 Deposits

	2002			
	Regulated financial institutions	Individuals	Businesses and governments	Total
Demand	**$ 158**	**$ –**	**$ 1,285**	**$ 1,443**
Notice	**–**	**3,018**	**4,012**	**7,030**
Fixed date	**600**	**11,414**	**7,885**	**19,899**
Total	**$ 758**	**$ 14,432**	**$ 13,182**	**$ 28,372**

	2001			
	Regulated financial institutions	Individuals	Businesses and governments	Total
Demand	$ 102	$ –	$ 1,035	$ 1,137
Notice	–	2,728	3,735	6,463
Fixed date	1,645	10,662	6,800	19,107
Total	$ 1,747	$ 13,390	$ 11,570	$ 26,707

Deposits denominated in U.S. dollars amount to $8,049 million (Canadian equivalent) (2001 - $8,358 million) and in other foreign currencies amount to $653 million (Canadian equivalent) (2001 - $610 million).

Notes to Consolidated Financial Statements (continued)

8 Other liabilities

	2002	2001
Accrued interest payable	**$ 157**	$ 213
Mortgages sold with recourse	**160**	131
Interest costing other liabilities	**207**	169
Payable to clients, dealers and clearing corporations	**655**	287
Market revaluation of trading derivatives (note 19)	**213**	236
Accounts payable and other	**592**	650
Total	**$ 1,984**	$ 1,686

During the year, HSBC Securities (Canada) Inc., a subsidiary of the Bank, announced a restructuring of its operations and costs of $30 million were charged to income, primarily for employee separation and real estate costs.

As at December 31, 2002, the total unutilized balance of restructuring costs of $15 million shown below was included in accounts payable and other.

	Salaries and employee benefits	*Premises and equipment*	*Other*	*Total*
Restructuring costs arising during the year	$ 22	$ 5	$ 3	$ 30
Amounts utilized during the year	12	1	2	15
Balance at end of year	$ 10	$ 4	$ 1	$ 15

9 Non-controlling interest in trust and subsidiary

a *HSBC Canada Asset Trust*

HSBC Canada Asset Trust (the "Trust") is a closed-end trust established under the laws of the Province of British Columbia by HSBC Trust Company (Canada), a subsidiary of the Bank, as trustee. The Trust's objective is to hold qualifying assets which will generate net income for distribution to holders of Trust Securities. The Trust assets are primarily undivided co-ownership interests in pools of Canada Mortgage and Housing Corporation ("CMHC") insured first mortgages originated by the Bank or its subsidiaries.

The Trust has 200,000 HSBC Canada Asset Trust Securities – Series 2010 ("HaTS") outstanding which total $200 million. Each of the HaTS were offered at $1,000 to provide an effective annual yield of 7.78% to December 31, 2010 and the six month bankers' acceptance rate plus 2.37% thereafter. Unless the Bank fails to declare dividends on its preferred shares, the Trust will make non-cumulative semi-annual cash distributions to the holders of each of the HaTS.

The Bank has covenanted that if the Trust fails to pay the indicated yield in full on the HaTS, the Bank will not declare dividends on any of its shares unless the Trust first pays the indicated yield (note 11).

The HaTS are not redeemable by the holders. Subject to regulatory approval, the Trust may redeem the HaTS on June 20, 2005 and on any distribution date thereafter.

b *HSBC Mortgage Corporation (Canada)*

Group holds $30 million, a 100% interest, of class B perpetual preferred shares issued by HSBC Mortgage Corporation (Canada) ("HMC"), a wholly owned subsidiary of the Bank. No dividends were paid or payable on these perpetual preferred shares for the years ended December 31, 2002 and 2001. Dividends may be declared at the discretion of the directors of HMC.

10 Subordinated debentures

Debentures, which are unsecured and subordinated in right of payment to the claims of depositors and certain other creditors, comprise:

Interest rate (%)	*Year of maturity*	*Foreign currency amount*	**2002**	2001
Issued to Group companies				
7.09[1]	2094	US$85	$ **133**	$ 135
Issued to others				
8.50[2]	2002	EUR12	–	17
11.00[2]	2005		**60**	60
5.73[3]	2009		**60**	60
6.79[4]	2009		**50**	50
7.70[5]	2011		**60**	60
6.65[6]	2012		**25**	25
5.60[7]	2012		**100**	–
30 day bankers' acceptance rate plus 0.50%	2083		**40**	40
			395	312
Total			$ **528**	$ 447

(1) *The interest rate is fixed at 7.09% until July 2005 and thereafter the rate reprices every 5 years at the then 5 year U.S. Treasury rate plus 0.80%. Interest expense for the year amounted to $9 million (2001 - $9 million).*

(2) *The interest rate is fixed until maturity.*

(3) *The interest rate is fixed at 5.73% until November 2004 and thereafter the rate reprices at the 90 day average bankers' acceptance rate plus 1.00%.*

(4) *The interest rate is fixed at 6.79% until December 2004 and thereafter the rate reprices at the 90 day average bankers' acceptance rate plus 1.00%.*

(5) *The interest rate is fixed at 7.70% until February 2006 and thereafter the rate reprices at the 90 day average bankers' acceptance rate plus 1.00%.*

(6) *The interest rate is fixed at 6.65% until September 2007 and thereafter the rate reprices at the 90 day average bankers' acceptance rate plus 1.00%.*

(7) *The interest rate is fixed at 5.60% until June 2007 and thereafter the rate reprices at the 90 day average bankers' acceptance rate plus 1.00%.*

11 Capital stock

Authorized:

Preferred – Unlimited number of Class 1 preferred shares in one or more series and unlimited number of Class 2 preferred shares in one or more series. The Board of Directors may from time to time divide any unissued Class 1 preferred shares into series and fix the number of shares in each series and the rights, privileges, restrictions and conditions.

Common – 993,677,000 common shares without par value.

Issued and fully paid:

	2002		2001	
	Number of shares	*Amount*	*Number of shares*	*Amount*
Preferred – Class 1, Series A[1]	**5,000,000**	$ **125**	5,000,000	$ 125
Common[2]	**471,168,000**	**950**	456,168,000	935
		$ **1,075**		$ 1,060

(1) *The shares are non-voting, non-cumulative and redeemable. Each of the shares yield 6.25%, payable quarterly, as and when declared, until September 30, 2005. Subsequently, the dividend rate will be the greater of 6.00% or 95% of the average prime lending rate in Canada for the quarter immediately preceding the month in which the dividend is paid, as and when declared. During 2002, $8 million (2001 - $8 million) in dividends were declared and paid.*

The shares are not redeemable prior to September 30, 2005. Subject to regulatory approval on September 30, 2005, and on the last day of every successive period for five years and one day thereafter, the shares may be redeemed in whole by the Bank by the payment of cash equal to $25 per share plus all declared and unpaid dividends to the redemption date.

Notes to Consolidated Financial Statements (continued)

11 Capital stock *(continued)*

On September 30, 2005, and on the last day of every successive period for five years and one day thereafter, holders of shares will have the right to convert such shares into Preferred Shares Series B on a share-for-share basis, provided the Bank has not delivered a notice of redemption in respect of Preferred Shares Series A. The provisions of the Preferred Shares Series B are the same as those for Series A, except that the yield will be set to equal the 5 year Government of Canada bond rate 21 days preceding the date of conversion.

(2) *On October 31, 2002, the Bank issued 15 million common shares for $15 million as consideration for the purchase of Merrill Lynch HSBC Canada Inc. (note 22).*

Dividend restrictions:

The Bank has covenanted that if the Trust fails to pay the indicated yield in full on the HaTS, the Bank will not declare dividends on any of its shares unless the Trust first pays the indicated yield (note 9).

12 Stock-based compensation

Under the new CICA standards, the pro-forma disclosure requirements are only applicable to options and other awards granted from January 1, 2002 onwards.

Shares have been awarded to key employees of the Bank under the HSBC Restricted Share Plan. Stock options have been granted to employees of the Bank under the HSBC Holdings Group Share Option Plan (the "Group Share Option Plan") and the HSBC Savings-Related Share Option Scheme (the "Savings-Related Share Option Scheme"). As the shares and awards are in ordinary shares of HSBC which are traded on the London Stock Exchange, individual share information disclosed below is in Pounds Sterling. As at December 31, 2002 one Pound Sterling was equivalent to $2.54.

Restricted Share Plan

The Bank provides awards to key employees in the form of restricted shares of HSBC. These awards required achievement of certain performance targets and vest three years from the date of the award. The Restricted Shares are purchased in the open market and are held in trust on behalf of the employee until the vesting period has passed. The cost of shares awarded in 2002 was $3 million (2001- $2 million).

Group Share Option Plan

The Group Share Option Plan is a long-term incentive compensation plan available to certain Bank employees with grants usually made each year. Options are granted at market value and are normally exercisable between the third and tenth anniversaries of the date of grant, subject to vesting conditions.

	Number of options	*Weighted average exercise price*
Group Share Option Plan		
Options outstanding, beginning of year	9,493,573	£7.18
Granted in the year	2,868,421	£8.41
Exercised	(626,526)	£5.88
Forfeited/expired	(100,300)	£7.48
Options outstanding, end of year	11,635,168	£7.48
Options exercisable, end of year	4,157,089	

12 Stock-based compensation *(continued)*

Exercise prices	*Options outstanding* Number outstanding at end of year	Weighted average remaining contractual life (years)	Weighted average exercise price	*Options exercisable* Number exercisable at end of year	Weighted average exercise price
£2.00-£3.00	47,289	2	£2.24	47,289	£2.24
£3.33	153,300	3	£3.33	153,300	£3.33
£5.02	252,375	4	£5.02	252,375	£5.02
£6.28	379,875	5	£6.28	379,875	£6.28
£6.38	3,324,250	6	£6.37	3,324,250	£6.37
£7.46	2,184,925	7	£7.46	–	
£8.71	2,470,661	8	£8.71	–	
£8.40	2,822,493	9	£8.41	–	–
	11,635,168	7	£7.48	4,157,089	£6.12

The fair value of options granted in 2002 was £1.59 per option.

Savings-Related Share Option Schemes

The Savings-Related Share Option Schemes invite eligible employees to enter into savings contracts to save up to £250 per month, with the option to use the savings to acquire shares. The options are exercisable within six months following either the third or the fifth anniversary of the commencement of the savings contract depending on conditions set at grant. The exercise price is at a 20 per cent discount to the market value at the date of grant.

	Number of options	*Weighted average exercise price*
Savings related share option plan – 5 year		
Options outstanding, beginning of time	2,754,951	£4.70
Granted in the year	164,926	£6.32
Exercised (cumulative)	(412,638)	£4.49
Forfeited/expired (cumulative)	(256,587)	£5.79
Options outstanding, end of year	2,250,652	£5.85
Options exercisable, end of year	30,780	

Exercise prices	*Options outstanding* Number outstanding at end of year	Weighted average remaining contractual life (years)	Weighted average exercise price	*Options exercisable* Number exercisable at end of year	Weighted average exercise price
£4.52	30,780	0	£4.52	30,780	£4.52
£5.22	363,318	1	£5.22	-	
£5.40	470,343	2	£5.40	–	
£6.03	983,304	3	£6.03	–	
£6.75	247,289	4	£6.75		
£6.32	155,618	5	£6.32	–	
	2,250,652	3	£5.85	30,780	£4.52

The fair value of options granted in 2002 was £2.41 per option.

Notes to Consolidated Financial Statements (continued)

12 Stock-based compensation *(continued)*

	Number of options	*Weighted average exercise price*
Savings related share option plan – 3 year		
Options outstanding, beginning of time	529,838	£5.79
Granted in the year	397,820	£6.32
Transfers In/Out	(5,611)	£6.75
Exercised (cumulative)	(2,637)	£6.75
Forfeited/expired (cumulative)	(63,855)	£6.70
Options outstanding, end of year	855,555	£6.56
Options exercisable, end of year	–	

	Options outstanding			*Options exercisable*	
Exercise prices	*Number outstanding at end of year*	*Weighted average remaining contractual life (years)*	*Weighted average exercise price*	*Number exercisable at end of year*	*Weighted average exercise price*
£6.75	468,490	2	£6.75	–	–
£6.32	387,065	3	£6.32	–	–
	855,555	2	£6.56	–	–

The fair value of options granted in 2002 was £2.48 per option.

Fair values of share options, measured at the date of grant of the option, are estimated at the date of grant using a binomial option pricing model which produces similar results to the Black-Scholes option pricing model. The fair values estimated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The significant weighted average assumptions used to estimate the fair value of the options granted in 2002 are as follows:

	Group Share Option Plan	*Savings-Related Share Option Schemes - 3 Year*	*Savings-Related Share Option Schemes - 5 Year*
Risk-free interest rate (%)	5.52	5.51	5.57
Expected life (years)	10	3.5	5.5
Expected volatility (%)	25	30	30
Expected dividend growth (%)	10	10	10

When stock-based compensation awards are granted to employees, no compensation cost is recognized. Had compensation cost for certain of the Bank's employee stock-based compensation arrangements been determined based upon the fair value method, the Bank's net income and earnings per share would have been reported at the following pro-forma amounts for 2002:

	As reported	*Pro-forma*
Net income ($ millions)	$ 252	$ 250
Earnings per share ($)	$ 0.55	$ 0.54

13 Employee future benefits

The Bank sponsors a number of pension arrangements covering its employees. With one exception, these are defined benefit plans. In addition, the Bank sponsors post-retirement non-pension arrangements covering its employees.

Information about the defined benefit plans, in aggregate, as at December 31 (using a measurement date of September 30 - see note 1) is as follows:

	Pension benefits		*Other benefits*	
	2002	2001	**2002**	2001
Reconciliation of accrued benefit obligation				
Accrued benefit obligation, beginning of year	**$ 152**	$ 129	**$ 49**	$ 42
Service cost	**8**	7	**3**	3
Interest cost	**11**	10	**4**	3
Benefits paid	**(9)**	(9)	**(1)**	(1)
Actuarial loss	**1**	14	**7**	2
Employee contributions	**1**	1	**–**	–
Accrued benefit obligation, end of year	**$ 164**	$ 152	**$ 62**	$ 49
Reconciliation of fair value of plan assets				
Fair value of plan assets, beginning of year	**$ 154**	$ 189	**$ –**	$ –
Return on plan assets	**(8)**	(33)	**–**	–
Bank contributions	**7**	6	**1**	1
Employee contributions	**1**	1	**–**	–
Benefits paid	**(9)**	(9)	**(1)**	(1)
Fair value of plan assets, end of year	**$ 145**	$ 154	**$ –**	$ –
Funded status				
Funded status – plan (deficit) surplus	**$ (19)**	$ 2	**$ (62)**	$ (49)
Bank contributions after measurement date	**2**	2	**–**	–
Unamortized net actuarial loss	**79**	62	**8**	1
Unamortized transitional (asset) obligation	**(49)**	(53)	**32**	34
Accrued benefit asset (liability)	**13**	13	**(22)**	(14)
Valuation allowance	**(7)**	(5)	**–**	–
Accrued benefit asset (liability), net of valuation allowance	**$ 6**	$ 8	**$ (22)**	$ (14)

Included in the above accrued benefit obligations and fair value of pension plan assets at year-end are the following amounts in respect of pension plans that are not fully funded:

	2002	2001
Accrued benefit obligation	**$ 87**	$ 71
Fair value of plan assets	**46**	41
Funded status – deficit	**$ 41**	$ 30

Notes to Consolidated Financial Statements (continued)

13 Employee future benefits *(continued)*

The following table shows the components of net periodic defined benefit cost:

	Pension benefits		*Other benefits*	
	2002	2001	**2002**	2001
Service cost	**$ 8**	$ 7	**$ 3**	$ 3
Interest cost	**11**	10	**4**	3
Expected return on plan assets	**(11)**	(15)	**–**	–
Amortization of transitional obligation (asset)	**(4)**	(4)	**2**	2
Amortization of net actuarial loss (gain)	**3**	–	**–**	–
Increase in valuation allowance	**2**	5	**–**	–
Net benefit plan expense	**$ 9**	$ 3	**$ 9**	$ 8

The expense for the Bank's defined contribution pension plan for the year was $2 million (2001 - $2 million).

The significant actuarial assumptions adopted in measuring the Bank's accrued benefit obligations are as follows (weighted-average assumptions as of December 31):

	Pension benefits		*Other benefits*	
	2002	2001	**2002**	2001
Discount rate	**7.00%**	7.25%	**7.00%**	7.25%
Expected long-term rate of return on plan assets	**7.25%**	8.0%	**–**	–
Rate of compensation increase	**4.0%**	4.0%	**4.0%**	4.0%

For measurement purposes, a 5.3% health care cost trend rate was assumed grading down to 3.9% by 2004 and assumed to remain level thereafter.

14 Income taxes

a Provisions for income taxes included in the consolidated statements of income are:

	2002	2001
Current income taxes:		
Federal	**$ 119**	$ 100
Provincial	**58**	54
	177	154
Future income taxes:		
Federal	**(8)**	(4)
Provincial	**(5)**	(3)
	(13)	(7)
Total income taxes	**$ 164**	$ 147

14 Income taxes *(continued)*

b The provisions for income taxes shown in the consolidated statements of income are less than that obtained by applying statutory tax rates to the net income before provision for income taxes, less non-controlling interest in income of subsidiaries, for the following reasons:

	2002	2001
Combined federal and provincial income tax rate	**38.9%**	43.2%
Adjustments resulting from:		
Common shares, and income debentures	**(2.8)**	(2.4)
Utilization of tax losses carried forward and other deductions	**–**	(3.9)
Substantively enacted tax rate changes	**0.1**	1.8
Additional financial institution taxes	**0.3**	0.5
Other, net	**2.2**	1.5
Effective tax rate	**38.7%**	40.7%

c The net future income tax asset reported in other assets is comprised as follows:

	2002	2001
Future income tax assets:		
Allowance for credit losses	**$ 77**	$ 81
Other available deductions	**30**	28
Non-capital losses	**30**	15
Other	**17**	9
	154	133
Valuation allowance	**(8)**	–
	146	133
Future income tax liabilities:		
Leases	**(15)**	(19)
Intangible assets	**(12)**	(13)
Other	**(3)**	(3)
	(30)	(35)
Net future income tax asset	**$ 116**	$ 98

15 Long-term lease commitments

Future minimum commitments under long-term leases of premises are as follows:

2003	$ 33
2004	31
2005	26
2006	22
2007	16
2008 and thereafter	61
	$ 189

The total rental expense charged in respect of premises for the year was $41 million (2001 - $42 million).

Notes to Consolidated Financial Statements (continued)

16 Guarantees and letters of credit

The Bank issues guarantees and letters of credit to meet credit requirements of certain customers. The amounts are not included in the consolidated balance sheets and are as follows:

	2002	2001
Guarantees	$ **1,244**	$ 1,169
Letters of credit	**434**	469
	$ **1,678**	$ 1,638

In the event of a call on the above commitments, the Bank has recourse against those customers who have requested the guarantees or letters of credit.

17 Contingencies

A Bank subsidiary is subject to threatened actions relating to its responsibilities as a distributor, escrow agent and custodian. Based upon information presently available, counsel for the Bank are not in a position to express an opinion as to the likely outcome. Accordingly, no provisions have been recorded in the consolidated financial statements relating to these matters.

The Bank and its subsidiaries are subject to a number of other legal proceedings arising in the normal course of their businesses. Management does not expect the outcome of any of these other proceedings, in aggregate, to have a material effect on the consolidated financial position or results of the Bank's operations.

18 Fair value of financial instruments

The amounts below represent the fair values of the Bank's on-balance sheet financial instruments as at December 31. Fair value is the estimated amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. Many of the Bank's financial instruments lack an available trading market. Therefore, these instruments have been valued using present value or other valuation techniques and may not necessarily be indicative of the amounts realizable in an immediate settlement of the instruments. In addition, the calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

Changes in interest rates are the main cause of changes in the fair value of the Bank's financial instruments. The majority of the Bank's financial instruments are carried at historical cost and are not adjusted to reflect increases or decreases in fair value due to market fluctuations, including those due to interest rate changes. For those financial instruments held for trading purposes, the carrying value is adjusted daily to reflect the fair value.

The following table sets out the fair values of on-balance sheet financial instruments of the Bank using the valuation methods and assumptions described below. The fair values disclosed do not reflect the value of assets and liabilities that are not considered financial instruments, such as land, buildings and equipment.

18 Fair value of financial instruments *(continued)*

	2002			2001		
	Book value	*Fair value*	*Fair value over (under) book value*	*Book value*	*Fair value*	*Fair value over (under) book value*
Assets						
Cash resources	**$ 3,734**	**$ 3,734**	**$ –**	$ 3,727	$ 3,727	$ –
Securities (Note 2)	**3,745**	**3,775**	**30**	3,627	3,658	31
Securities purchased under reverse repurchase agreements	**416**	**416**	**–**	428	428	–
Loans	**23,869**	**24,017**	**148**	21,870	22,134	264
Acceptances	**2,374**	**2,374**	**–**	2,571	2,571	–
Other assets	**940**	**940**	**–**	913	913	–
Liabilities						
Deposits	**$ 28,372**	**$ 28,457**	**$ 85**	$ 26,707	$ 26,839	$ 132
Acceptances	**2,374**	**2,374**	**–**	2,571	2,571	–
Securities sold under repurchase agreements	**28**	**28**	**–**	7	7	–
Other liabilities	**1,984**	**1,984**	**–**	1,686	1,686	–
Subordinated debt	**528**	**563**	**35**	447	477	30

The determination of fair values of financial instruments for which there are no quoted market values requires that a number of assumptions are made for which there exists a significant degree of subjectivity. The following methods and assumptions were used to estimate the fair value of these financial instruments:

- Cash resources, acceptances, other assets, securities purchased under reverse repurchase agreements, securities sold under repurchase agreements and other liabilities are assumed to approximate their carrying values, due to their short term nature.
- Investment securities are assumed to be equal to the estimated market value of securities provided in Note 2. These values are based on quoted market prices where available. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities or other valuation techniques. Trading securities have carrying values which are equal to their estimated market value.
- Floating rate loans are assumed to be equal to their book value. The fair values of loans with fixed terms are estimated using a discounted cash flow calculation at current rates for loans with similar terms and risks.
- Demand and floating rate deposits are assumed to be equal to their carrying value. The fair values of fixed rate deposits are estimated using a discounted cash flow calculation at current rates for deposits with similar terms and risks.
- Subordinated debt is determined by reference to current market prices for debt with similar terms and risks.

Notes to Consolidated Financial Statements (continued)

19 Derivative instruments

In the ordinary course of business, the Bank enters into various derivative contracts such as foreign exchange contracts, interest rate swaps, forward rate agreements and financial futures contracts whose notional principal is not included in the Consolidated Balance Sheets.

Derivatives are contracts whose value is derived from an underlying asset or an underlying reference rate or index such as interest or foreign exchange rates. The Bank uses derivatives for both trading and asset/liability management purposes.

Trading related activity includes transactions undertaken on behalf of the Bank and its customers ("Trading"). Asset/liability management derivatives are used by the Bank to manage its exposures to interest rate and foreign currency fluctuations and where appropriate the Bank may use customer related trading transactions as part of its asset/liability management ("ALM") program.

The Bank strictly adheres to its formalized risk management policies and procedures. Risk limits are determined for each portfolio of derivative instruments based on product, currency, interest rate repricing and market volatility. All limits are monitored on a daily basis.

Derivative instruments are subject to both market risk and credit risk. Market risk is the risk that the fair value of derivatives will fluctuate due to changes in interest, foreign exchange rates, and equity markets. Market risk is managed on a consolidated Bank basis.

Credit risk for derivative instruments is not equal to the notional amount of the principal as it is with assets recorded on the balance sheets. The credit risk for derivatives is principally the replacement cost of any contract with a positive market value plus an estimate for future fluctuation risk. Credit risk for derivatives is managed using the Bank's risk management policies.

a An analysis of the Bank's derivative portfolio and related credit exposure at December 31 is as follows:

	2002				2001			
	Notional amount	*Current replacement cost*	*Credit equivalent amount*	*Risk weighted balance*	*Notional amount*	*Current replacement cost*	*Credit equivalent amount*	*Risk weighted balance*
Interest rate contracts								
Forward rate agreements	$ –	$ –	$ –	$ –	$ 1,529	$ 2	$ 2	$ 1
Futures – exchange traded	346	–	–	–	1,101	–	–	–
Swaps	7,724	172	187	51	6,982	177	179	50
Caps	77	–	1	–	137	–	1	–
	8,147	172	188	51	9,749	179	182	51
Foreign exchange contracts								
Spot contracts	257	1	–	–	290	–	–	–
Forward contracts	13,428	169	389	100	14,703	230	456	130
Currency futures	21	–	–	–	–	–	–	–
Currency swaps and options	966	6	17	5	2,670	2	18	7
	14,672	176	406	105	17,663	232	474	137
Equity contracts	276	1	12	3	275	–	12	2
Total	$ 23,095	$ 349	$ 606	$ 159	$ 27,687	$ 411	$ 668	$ 190
Impact of master netting agreements		(65)	(106)	(21)		(50)	(92)	(18)
		$ 284	$ 500	$ 138		$ 361	$ 576	$ 172

19 Derivative instruments *(continued)*

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They are a common measure of volume of outstanding transactions, but do not represent credit or market risk exposure.

Current replacement cost represents the estimated cost of replacing, at current market rates, all contracts with a positive value. Credit equivalent amount is the current replacement cost plus an amount for future credit exposure associated with the potential for future changes in currency and interest rates. The future credit exposure is calculated using a formula prescribed by the Superintendent in its capital adequacy guidelines.

Risk-weighted balance represents the amount based upon which the regulatory capital required to support the Bank's derivative activities is calculated. It is derived from risk weighting the credit equivalent amounts according to the creditworthiness of the counter parties using factors prescribed by the Superintendent in its capital adequacy guidelines.

b The following tables summarize the notional amounts by remaining term to maturity of the Bank's derivative portfolio at December 31, segregating derivative instruments between those entered into by the Bank for its customer and proprietary trading activities and those used to manage the risk associated with changes in interest and foreign exchange rates as part of the Bank's ALM program.

	2002								
	Trading				*ALM*				
	Under 1 year	*1 - 5 years*	*Over 5 years*	*Total trading*	*Under 1 year*	*1 - 5 years*	*Over 5 years*	*Total ALM*	*Total*
Interest rate contracts									
Forward rate agreements	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Futures – exchange traded	346	–	–	346	–	–	–	–	346
Swaps	2,025	1,511	632	4,168	1,684	1,645	227	3,556	7,724
Caps	57	20	–	77	–	–	–	–	77
	2,428	1,531	632	4,591	1,684	1,645	227	3,556	8,147
Foreign exchange contracts									
Spot contracts	198	–	–	198	59	–	–	59	257
Forward contracts	6,944	2,084	–	9,028	4,361	39	–	4,400	13,428
Currency futures	21	–	–	21	–	–	–	–	21
Currency swaps and options	720	232	–	952	3	11	–	14	966
	7,883	2,316	–	10,199	4,423	50	–	4,473	14,672
Equity contracts	276	–	–	276	–	–	–	–	276
Total	$ 10,587	$ 3,847	$ 632	$ 15,066	$ 6,107	$ 1,695	$ 227	$ 8,029	$ 23,095

Notes to Consolidated Financial Statements (continued)

19 Derivative instruments *(continued)*

	2001								
	Trading				*ALM*				
	Under 1 year	*1 - 5 years*	*Over 5 years*	*Total trading*	*Under 1 year*	*1 - 5 years*	*Over 5 years*	*Total ALM*	*Total*
Interest rate contracts									
Forward rate agreements	$ 1,529	$ –	$ –	$ 1,529	$ –	$ –	$ –	$ –	$ 1,529
Futures – exchange traded	982	119	–	1,101	–	–	–	–	1,101
Swaps	1,680	1,737	318	3,735	1,027	1,831	389	3,247	6,982
Caps	80	57	–	137	–	–	–	–	137
	4,271	1,913	318	6,502	1,027	1,831	389	3,247	9,749
Foreign exchange contracts									
Spot contracts	290	–	–	290	–	–	–	–	290
Forward contracts	8,057	2,107	–	10,164	4,530	9	–	4,539	14,703
Currency swaps and options	2,620	8	–	2,628	24	7	11	42	2,670
	10,967	2,115	–	13,082	4,554	16	11	4,581	17,663
Equity contracts	275	–	–	275	–	–	–	–	275
Total	$ 15,513	$ 4,028	$ 318	$ 19,859	$ 5,581	$ 1,847	$ 400	$ 7,828	$ 27,687

c The following tables summarize the fair values, as represented by the sum of the net unrealized gains and losses, accrued interest receivable and payable and premiums paid or received, of the Bank's derivative portfolio at December 31 segregating derivative instruments between trading and ALM and between those that are in a favourable or receivable position from those in an unfavourable or payable position.

Trading derivatives are marked to market on a daily basis and the net position for the trading portfolio shown in the table below has already been recognized in the financial statements. ALM interest rate derivatives are accounted for on the accrual basis and the net income or expense is recognized over the life of the derivative contract. Foreign exchange derivatives used for ALM purposes are accounted for on an accrual basis, as are the underlying assets and liabilities hedged. The ALM portfolio is used to manage the Bank's exposure to changes in interest and foreign currency rates. Consequently, the net favourable or unfavourable position in the ALM portfolio shown in the table below is approximately offset by changes in the values in the underlying hedged assets and liabilities.

Fair values of derivative instruments are determined using quoted market prices.

19 Derivative instruments *(continued)*

	2002						
	Trading			*ALM*			
	Favourable position	*(Unfavourable) position*	*Net position*	*Favourable position*	*(Unfavourable) position*	*Net position*	*Total net*
Interest rate contracts							
Forward rate agreements	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Futures	–	–	–	–	–	–	–
Swaps	80	(80)	–	92	(20)	72	72
Caps	–	–	–	–	–	–	–
	80	(80)	–	92	(20)	72	72
Foreign exchange contracts							
Spot contracts	–	–	–	1	–	1	1
Forward contracts	131	(126)	5	38	(10)	28	33
Currency futures	–	–	–	–	–	–	–
Currency swaps and options	6	(7)	(1)	–	(2)	(2)	(3)
	137	(133)	4	39	(12)	27	31
Equity contracts	1	–	1	–	–	–	1
Total	$ 218	$ (213)	$ 5	$ 131	$ (32)	$ 99	$ 104

	2001						
	Trading			*ALM*			
	Favourable position	*(Unfavourable) position*	*Net position*	*Favourable position*	*(Unfavourable) position*	*Net position*	*Total net*
Interest rate contracts							
Forward rate agreements	$ 2	$ (2)	$ –	$ –	$ –	$ –	$ –
Futures	–	–	–	–	–	–	–
Swaps	66	(64)	2	111	(18)	93	95
Caps	–	–	–	–	–	–	–
	68	(66)	2	111	(18)	93	95
Foreign exchange contracts							
Spot contracts	–	–	–	–	–	–	–
Forward contracts	149	(149)	–	81	(4)	77	77
Currency swaps and options	1	(15)	(14)	1	(2)	(1)	(15)
	150	(164)	(14)	82	(6)	76	62
Equity contracts	–	(6)	(6)	–	–	–	(6)
Total	$ 218	$ (236)	$ (18)	$ 193	$ (24)	$ 169	$ 151

Notes to Consolidated Financial Statements (continued)

20 Interest rate sensitivity position

The following table provides an analysis of the Bank's interest rate sensitivity position at December 31 based on contractual repricing dates of assets and liabilities:

	2002									
	Within 3 months	*3 to 6 months*	*6 to 12 months*	*Effective interest rate (%)*	*1 to 5 years*	*Effective interest rate (%)*	*Greater than 5 years*	*Effective interest rate (%)*	*Non-interest sensitive*	*Total*
Cash resources	$ 3,396	$ 79	$ 5	1.6	$ –	–	$ –	–	$ 254	$ 3,734
Securities	1,749	717	432	3.0	522	5.6	14	4.6	311	3,745
Securities purchased under reverse repurchase agreements	416	–	–	2.7	–	–	–	–	–	416
Loans	14,318	1,085	1,866	4.4	6,546	5.6	139	5.4	(85)	23,869
Other assets	139	–	–	5.3	–	–	–	–	3,286	3,425
Total assets	20,018	1,881	2,303	–	7,068	–	153	–	3,766	35,189
Deposits	15,891	2,609	4,272	1.8	1,654	4.4	1	4.4	3,945	28,372
Securities sold under repurchase agreements	28	–	–	2.7	–	–	–	–	–	28
Other liabilities	207	–	–	1.0	–	–	–	–	4,151	4,358
Non-controlling interest in subsidiaries	–	–	–	–	–	–	200	7.8	30	230
Subordinated debt	40	–	–	3.3	488	7.1	–	–	–	528
Shareholders' equity	–	–	–	–	125	6.3	–	–	1,548	1,673
Total liabilities & shareholders' equity	16,166	2,609	4,272	–	2,267	–	201	–	9,674	35,189
On balance sheet gap	3,852	(728)	(1,969)	–	4,801	–	(48)	–	(5,908)	–
Off balance sheet positions	(978)	222	(222)	–	790	–	188	–	–	–
Total interest rate gap	$ 2,874	$ (506)	$(2,191)	–	$ 5,591	–	$ 140	–	$(5,908)	$ –

20 Interest rate sensitivity position *(continued)*

	2001									
	Within 3 months	*3 to 6 months*	*6 to 12 months*	*Effective interest rate (%)*	*1 to 5 years*	*Effective interest rate (%)*	*Greater than 5 years*	*Effective interest rate (%)*	*Non-interest sensitive*	*Total*
Cash resources	$ 2,954	$ 239	$ 239	2.5	$ 5	6.3	$ –	–	$ 290	$ 3,727
Securities	1,551	528	305	3.5	823	5.2	39	4.6	381	3,627
Securities purchased under reverse repurchase agreements	428	–	–	2.0	–	–	–	–	–	428
Loans	12,102	1,290	2,123	4.7	6,206	6.6	182	7.4	(33)	21,870
Other assets	–	–	–	–	–	–	–	–	3,608	3,608
Total assets	17,035	2,057	2,667	–	7,034	–	221	–	4,246	33,260
Deposits	15,441	2,917	4,087	2.1	902	5.5	9	5.6	3,351	26,707
Securities sold under repurchase agreements	7	–	–	2.0	–	–	–	–	–	7
Other liabilities	–	–	–	–	–	–	–	–	4,257	4,257
Non-controlling interest in subsidiaries	–	–	–	–	–	–	200	7.8	30	230
Subordinated debt	40	–	18	4.6	364	7.6	25	7.6	–	447
Shareholders' equity	–	–	–	–	125	6.3	–	–	1,487	1,612
Total liabilities & shareholders' equity	15,488	2,917	4,105	–	1,391	–	234	–	9,125	33,260
On balance sheet gap	1,547	(860)	(1,438)	–	5,643	–	(13)	–	(4,879)	–
Off balance sheet positions	(689)	(576)	121	–	934	–	210	–	–	–
Total interest rate gap	$ 858	$(1,436)	$(1,317)	–	$ 6,577	–	$ 197	–	$(4,879)	$ –

An immediate and sustained parallel increase in interest rates of 1% across all currencies and maturities would reduce net interest income by $9 million (2001 - $25 million) over the next twelve months assuming no additional hedging is undertaken.

In managing interest rate risk, the Bank relies primarily upon its contractual interest rate sensitivity position adjusted for certain assumptions regarding customer behavioral preferences, which are based upon historical trends. Adjustments made include assumptions relating to early repayment of consumer loans and residential mortgages and customer preferences for demand, notice and redeemable deposits. Based upon these adjustments, it is estimated that an immediate and sustained parallel increase in interest rates of 1% across all currencies and maturities would decrease net interest income by $4 million (2001 - $13 million) over the next twelve months assuming no additional hedging is undertaken.

Notes to Consolidated Financial Statements (continued)

21 Segmented information

a *Business Lines:*

The Bank's reportable segments are strategic business lines that offer different products and services. The Bank primarily measures the performance of each business line based on the net income of the business line. During 2001, we realigned certain of our operations and combined the Corporate and Institutional Banking ("CIB") business together with the Commercial and Institutional segments of our brokerage and asset management businesses to form a new business line, "Wholesale Banking". For 2002, the results of this new business line will be tracked separately and has replaced CIB as one of the reported business lines. The comparative information has been restated to reflect this new structure. A description of each segment is as follows:

Personal Financial Services provides services to individuals by offering a comprehensive range of financial products and services which include retail banking, asset management, full service brokerage, direct sale home, automobile and travel insurance; and trust and advisory services.

Commercial Financial Services meets the needs of Canadian commercial and corporate clients by offering the following services and products: commercial and corporate banking; asset management; mergers and acquisition ("M&A") advisory; merchant banking; treasury; and trade finance.

Wholesale Banking provides a comprehensive range of financial services to an international group of HSBC's large multinational clients. HSBC Bank Canada's focus is on entities that have a need for global value added products through M & A advisory, structured lending and trade services by offering the following: corporate banking; asset management; M & A advisory; treasury; and trade finance.

Treasury and Markets principally comprises client sales, service and distribution, balance sheet management, and proprietary trading.

Other includes the effect of consolidation adjustments and unallocated revenues and expenses.

The accounting policies of the segments are generally consistent with those followed in the preparation of the consolidated financial statements as disclosed in Note 1.

	Year ended December 31, 2002					
	Personal financial services	*Commercial financial services*	*Wholesale banking*	*Treasury and markets*	*Other*	*Total*
Net interest income	$ 432	$ 359	$ 23	$ 42	$ –	$ 856
Provision for credit losses	(9)	(48)	(70)	–	–	(127)
Other income	204	134	61	42	–	441
Non-interest expenses	(365)	(219)	(62)	(32)	(52)	(730)
Net income before the under noted:	262	226	(48)	52	(52)	440
Provision for income taxes	(100)	(84)	19	(20)	21	(164)
Non-controlling interest in income of trust	(5)	(8)	(2)	(1)	–	(16)
Net income	$ 157	$ 134	$ (31)	$ 31	$ (31)	$ 260
Average assets	$ 11,757	$ 13,036	$ 2,707	$ 7,327	$ –	$ 34,827

21 Segmented information *(continued)*

	Year ended December 31, 2001					
	Personal financial services	*Commercial financial services*	*Wholesale banking*	*Treasury and markets*	*Other*	*Total*
Net interest income	$ 326	$ 358	$ 33	$ 37	$ –	$ 754
Provision for credit losses	(20)	(68)	(4)	–	–	(92)
Other income	182	115	74	48	–	419
Non-interest expenses	(341)	(234)	(51)	(33)	(45)	(704)
Net income before the under noted:	147	171	52	52	(45)	377
Provision for income taxes	(58)	(66)	(20)	(21)	18	(147)
Non-controlling interest in income of trust	(5)	(8)	(2)	(1)	–	(16)
Net income	$ 84	$ 97	$ 30	$ 30	$ (27)	$ 214
Average assets	$ 9,981	$ 12,413	$ 2,719	$ 6,734	$ –	$ 31,847

b *Geographic*:

	2002			
	Assets		*Liabilities*	
	Amount	*Percent*	*Amount*	*Percent*
Canada	**$ 31,988**	**90.9**	**$ 28,473**	**85.5**
United States	**2,956**	**8.4**	**1,172**	**3.5**
Hong Kong SAR	**105**	**0.3**	**1,826**	**5.5**
Other	**140**	**0.4**	**1,815**	**5.5**
Total	**$ 35,189**	**100.0**	**$ 33,286**	**100.0**

	2001			
	Assets		*Liabilities*	
	Amount	*Percent*	*Amount*	*Percent*
Canada	$ 30,184	90.8	$ 25,620	81.5
United States	2,136	6.4	1,810	5.8
Hong Kong SAR	127	0.4	2,156	6.9
Other	813	2.4	1,832	5.8
Total	$ 33,260	100.0	$ 31,418	100.0

Assets are allocated on the basis of the location of ultimate risk. Liabilities are allocated on the basis of the residence status of the bearer of the deposit, acceptances or other liability.

22 Business acquisitions and long-term investments

a *2002 acquisitions*

On October 31, 2002, the Bank acquired all of the issued and outstanding shares of Merrill Lynch HSBC Canada Inc. ("MLHSBC") at a valuation of $15 million, as determined by an independent third party, satisfied by the issuance of 15 million common shares at $1 per share. The acquisition of MLHSBC was a related party transaction as ownership was transferred within the HSBC Group. Accordingly, the acquisition was measured at the Group's carrying amount, which was pushed down to MLHSBC, effective July 1, 2002, the date that the HSBC Group acquired its controlling interest in MLHSBC.

Notes to Consolidated Financial Statements (continued)

22 Business acquisitions and long-term investments *(continued)*

The acquisition was accounted for as an exchange of ownership interests under common control using the Group's carrying amounts of the net assets acquired, with the difference allocated to shareholders' equity as follows:

Tangible assets	$	326
Intangible assets		11
Liabilities		(341)
Carrying amount – deficit		4
Common shares issued		15
Reduction in shareholders' equity	$	19

In accordance with Canadian GAAP, the results of MLHSBC have been consolidated with those of the Bank subsequent to July 1, 2002. The Consolidated Statements of Income includes a loss of $2 million for the period July 1, 2002 to October 31, 2002.

b *2001 acquisitions*

Effective March 19, 2001, the Bank acquired all the voting shares of CCF Canada ("CCFC") from a Group company and all of non-voting Special Shares from Crédit Lyonnais Global Banking at carrying amounts. Prior to the acquisition by the Bank, CCFC was formed by the amalgamation of CCFC and Crédit Lyonnais Canada and continued under the name of CCFC. On April 1, 2001, CCFC was amalgamated with the Bank.

The acquisition was accounted for as an exchange of ownership interests under common control using the carrying amounts of the net assets acquired which consisted of:

Tangible assets	$	96
Liabilities		(32)
Net assets acquired for cash consideration	$	64

23 Related party transactions

Effective December 9, 2002, HSBC USA Inc., a subsidiary of the Parent, purchased certain assets and assumed certain liabilities of the Bank's branches in Seattle, Washington and Portland, Oregon. Subsequent to December 9, 2002 HSBC USA Inc. assumed the daily operations of these two branches. The sale was accounted for as an exchange of ownership interests under common control using the carrying amounts, as supported by an independent third party valuation, of the net assets sold:

Assets sold	$	416
Liabilities relieved		395
		21
Premium		1
Total cash consideration received	$	22

As this was a related party transaction, the premium received, net of related income taxes, was recorded in retained earnings.

The result of operations of the two branches is not sufficiently material to the Bank's consolidated statement of income to warrant separate disclosure.

The Bank pays fees to Group companies with respect to guarantees of deposit liabilities, and administrative and technical services provided to the Bank. The total fees for the year amounted to $70 million (2001 - $67 million).

Group companies hold certain debentures and preferred shares (notes 9 and 10).

The Bank has an agreement with a Group company to provide a standby borrowing facility of up to US$300 million to the Bank at market rates and conditions. Funds have not been drawn from the facility since entering into the agreement.

In addition to the above related party transactions, the Bank has transactions of a routine nature with Group companies, none of which are material to these financial statements.

23 Related party transactions *(continued)*

The Bank's wholly owned principal operating subsidiaries are as follows:

Principal subsidiaries	*Principal office address*	*Book value of voting shares*
HSBC Asset Management (Canada) Limited	Vancouver, British Columbia	$ 5
HSBC Canadian Direct Insurance Incorporated	New Westminster, British Columbia	35
HSBC Capital (Canada) Inc.	Vancouver, British Columbia	8
HSBC Investment Funds (Canada) Inc.	Vancouver, British Columbia	1
HSBC Loan Corporation (Canada)	Vancouver, British Columbia	2
HSBC Mortgage Corporation (Canada)	Vancouver, British Columbia	227
HSBC Securities (Canada) Inc.	Toronto, Ontario	236
HSBC Trust Company (Canada)	Edmonton, Alberta	16
Merrill Lynch HSBC Canada Inc.	Toronto, Ontario	19

24 Changes in accounting polices

During the year the Bank adopted the following changes in accounting policies issued by the CICA.

Goodwill and other Intangible Assets

In August 2001, the CICA issued Handbook Section 3062, "Goodwill and Other Intangible Assets." This section involves a new approach to accounting for goodwill and other intangible assets having indefinite lives after an enterprise initially records these assets. The approach involves testing for impairment at the reporting unit level rather than at an acquisition-specific or enterprise-wide level.

This Section was effective for fiscal years beginning on or after January 1, 2002.

The Bank adopted the Section for its fiscal year beginning on January 1, 2002, at which time it completed the transitional impairment test, and determined that goodwill and other intangible assets having indefinite lives, not subject to amortization, were not impaired.

Business Combinations

In July 2001, the CICA updated the CICA Handbook Section 1581 "Business Combinations". The updates required that all acquisitions initiated on or after July 1, 2001 be accounted for using the purchase method.

Under the transitional provisions the Bank credited $13 million to opening retained earnings as at January 1, 2002. This amount represents the net unamortized deferred credits as at January 1, 2002 relating to business combinations with a date of acquisition before July 1, 2001.

Stock-Based Compensation and Other Stock-Based Payments

In November 2001, the CICA issued Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments." This Section requires a fair value based method of accounting for all awards granted to other than employees, and for certain, but not all, awards granted to employees.

This Section was effective for fiscal years beginning on or after January 1, 2002 and applies to awards granted on or after the date of adoption. Certain types of awards granted prior to, but remaining outstanding at, the date of adoption, are also captured under the scope of the new standard.

The Bank adopted the Section for its fiscal year beginning on January 1, 2002. In accordance with the recommendation of the CICA, the Bank has used a fair value based method of accounting for certain of its stock-based compensation plans.

The HSBC Group: International Network*

Services are provided by over 8,000 offices in 80 countries and territories:

Europe	Offices
Armenia	2
Azerbaijan	1
Belgium	4
Channel Islands	27
Cyprus	151
Czech Republic	1
France	791
Germany	12
Greece	63
Ireland	6
Isle of Man	3
Italy	5
Luxembourg	6
Malta	53
Monaco	2
Netherlands	1
Poland	3
Russia	3
Spain	5
Sweden	1
Switzerland	17
Turkey	165
United Kingdom	1,720

Asia-Pacific	Offices
Australia	44
Bangladesh	4
Brunei Darussalam	14
China	22
Hong Kong Special Administrative Region	392
India	39
Indonesia	15
Japan	5
Kazakhstan	1
Korea, Republic of	11
Macau Special Administrative Region	6
Malaysia	42
Maldives	1
New Zealand	7
Pakistan	2
Philippines	23
Singapore	26
Sri Lanka	10
Taiwan	20
Thailand	2
Vietnam	2

Americas	Offices
Argentina	206
Bahamas	6
Bermuda	1
Brazil	1,563
British Virgin Islands	3
Canada	169
Cayman Islands	5
Chile	2
Guam	1
Mexico	1,388
Panama	16
United States of America	929
Uruguay	4
Venezuela	1

Middle East and Africa	Offices
Algeria	1
Angola	2
Bahrain	4
Côte d'Ivoire	1
Egypt	14
Ghana	1
Iran	1
Israel	3
Jordan	2
Lebanon	6
Libya	1
Mauritius	13
Morocco	1
Mozambique	2
Namibia	1
Oman	7
Palestinian Autonomous Area	1
Qatar	4
Saudi Arabia	77
South Africa	11
Uganda	2
United Arab Emirates	16

Associated companies are included in the network of offices.

HSBC Bank Canada Branches and Subsidiaries*

British Columbia
Abbotsford
Burnaby (3)
Campbell River
Chilliwack
Coquitlam (2)
Cranbrook
Kamloops
Kelowna (2)
Langley
Maple Ridge
Nanaimo (2)
New Westminster
North Vancouver (2)
Penticton
Port Coquitlam
Prince George
Richmond (4)
Surrey (2)
Vancouver (16)
Vernon
Victoria (3)
West Vancouver
White Rock

Alberta
Calgary (5)
Edmonton (4)
Lethbridge
Medicine Hat
Red Deer

Saskatchewan
Regina
Saskatoon

Manitoba
Winnipeg

Ontario
Barrie
Brampton
Etobicoke
Hamilton
Kanata
Kingston
Kitchener
London
Markham (3)
Mississauga (3)
Oakville
Ottawa
Richmond Hill
St. Catharines
Sault Ste. Marie
Scarborough (3)
Thunder Bay
Timmins
Toronto (8)
Unionville
Vaughan
Whitby
Willowdale
Windsor

Québec
Brossard
Chicoutimi
Laval
Longueuil
Montréal (4)
Pointe-Claire
Québec City
Saint-Léonard
Sherbrooke
Trois-Rivières

New Brunswick
Fredericton
Saint John

Nova Scotia
Halifax

Newfoundland
St. John's

SUBSIDIARIES

HSBC Canadian Direct Insurance Incorporated
1 (888) 225-5234
www.canadiandirect.com

HSBC Trust Company (Canada)
1 (888) 887-3388

HSBC Asset Management (Canada) Limited
1 (888) 390-3333
www.hsbc.ca/assetmanagement

HSBC Capital (Canada) Inc.
(604) 631-8088
(416) 369-4748

HSBC Investment Funds (Canada) Inc.
1 (800) 830-8888
www.hsbc.ca/funds

HSBC Securities (Canada) Inc.
1 (800) 332-1182

Merrill Lynch HSBC Canada Inc.
www.mlhsbc.ca

For more information, or to find the HSBC Bank Canada branch nearest you, call 1 (800) 889-4522 or visit our website: www.hsbc.ca

**All information on this page and the inside back cover is as at 3 March 2003.*

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Vancouver

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Chief Operating Officer
Toronto

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Executive Vice President
Vancouver

Bradley Meredith
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Toronto

Sarah Morgan-Silvester
Executive Vice President
Vancouver

Bob Anthony
Chief Credit Officer
Vancouver

Roger McGregor
Chief Financial Officer
Vancouver

SENIOR REGIONAL EXECUTIVES:

BC REGION:

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Senior Vice President,
B.C. Region
Vancouver

Kenneth Li
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B.C. Region
Richmond

David Tunnicliffe
Senior Vice President
and Manager,
Vancouver Main Branch
Vancouver

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Senior Vice President,
Western Region
Calgary

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Senior Vice President and
Manager, Toronto Main Branch
and Ontario Region
Toronto

David Lee
Head of Asian Markets
and Senior Vice President,
Ontario Region
Toronto

Marjory Miller
Senior Vice President,
Ontario and Atlantic Regions
Toronto

QUEBEC REGION:

Jon Hountalas
Senior Vice President,
Quebec Region
Montreal

SENIOR SUBSIDIARY EXECUTIVES:

Simon Edwards (subject to regulatory approval)
Chief Executive Officer
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Merrill Lynch HSBC Canada Inc.
Toronto

Stephen Baker
Chief Executive Officer
HSBC Asset Management
(Canada) Limited
HSBC Investment Funds
(Canada) Inc.
Vancouver

Brian Young
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Chief Executive Officer
HSBC Canadian Direct
Insurance Incorporated
New Westminster

David Mullen
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